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EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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SOUTH AFRICA
Signs of maturity in the ANC
Page 11

World News

Mandela eases stance on economic sanctions

African National Congress leader Nelson Mandela promised flexibility on the issue of lifting economic sanctions on South Africa. He also urged the ANC to do more to ease the fears of the country's white, coloured and Indian minorities. Page 12

Israel states terms
Israel said it would not pull its forces out of southern Lebanon unless Syrian troops did the same. Page 3

Jordan lifts martial law
Jordan is today ending martial law which has been in force since the 1967 Arab-Israeli war. Page 3

Pakistan explosion
At least 10 Pakistani soldiers died in an explosion at a military ammunition depot. They were clearing unexploded shells from a previous fatal blast, which killed at least 15 people in May.

Religious leader held
Algerian riot police burst into a news conference and arrested Mohamed Said, the man picked to head the country's main Islamic opposition party. Two other senior party men were seized last week. Page 3

Kuwait talks postponed
Kuwait and its Arab allies have postponed troubled talks on forming a joint force to protect the emirate from Iraq. Diplomats say the eight countries involved still disagree over the size, cost and composition of the new force. Page 3

Italy changes rules
Italy is putting a new law in force today in its attempt to stop crime syndicates laundering money. All cash movements of over L20m ($18,000) will have to be made through recognised intermediaries.

Terror suspects escape
British police were hunting two armed IRA suspects who escaped from a London high security prison, shooting and wounding a man before hijacking a car. Nessan Quinlivan, 28, from the Irish republic and Pearse McAuley, 25 from Northern Ireland, were being held on terrorism charges.

Fishing village raided
Tamil Tiger rebels raided two Sri Lankan fishing villages, shooting or hacking to death 24 sleeping people, a government minister said.

Egypt's UN nominee
Egypt nominated veteran diplomat Butros Ghali to succeed Javier Perez de Cuellar as United Nations Secretary General Several names are being considered for the job.

Seriously richest
Two Japanese tycoons head a list of the world's wealthiest people in Forbes magazine of the US. First comes real estate man Taikichiro Mori, whose net worth is put at $15bn (£9.3bn). Seibu Railway magnate Yoshiaki Tsutsumi is ranked second with over $14bn.

Eclipse watchers gather
About 50,000 people are gathering in Hawaii to see the longest-lasting total eclipse of the sun for the next 150 years. The eclipse begins early on Thursday.

Caught cheating
A Bangladeshi student has been jailed for throwing her shoes at an invigilator who caught her cheating in her school final examinations.

Stich tennis victory
Germany's Michael Stich overwhelmed compatriot Boris Becker, three times the champion, to take the Wimbledon men's tennis singles title 6-4 7-6 6-4.

Business Summary

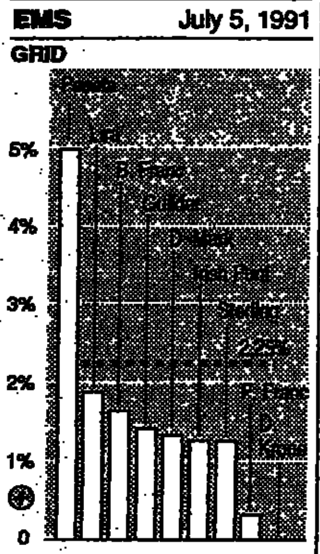
World Bank urges Third World to cut arms spend

Developing countries should adopt market-friendly policies and limit military spending, says the World Bank in a broadly positive assessment of Third World prospects.

Higher investment in people could be financed by cutting arms spending. The bank says donors should consider linking aid to progress by the receiver on reduction of its military budget. Page 12; Investment in people, Page 4

EUROPEAN Monetary System: There were no changes in the positions of currencies within the exchange rate mechanism grid last week, but sterling showed signs of improvement on Friday. While remaining the third weakest ERM member, the pound climbed above its central rate of DM2.95 against the D-Mark. The Spanish peseta was well within its ceiling against the bottom-placed Danish krone.

EMS July 5, 1991
GRID



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

INVESTMENT SERVICES: European Community finance ministers are to be pressed to reach agreement on a directive which would allow investment companies to trade throughout the EC after 1992. Page 12

UK RECESSION: hopes of an early end have been disappointed by two gloomy surveys of industry opinion, which will increase pressure for a cut in interest rates. Page 12

PARIS BOURSE: stock market professionals have asked Mr Pierre Bérégovoy, French finance minister, to consider wide-ranging stock exchange reforms aimed at stopping a flow of business to other financial centres. Page 13

REPSOL, Spanish state-controlled energy group partly privatised two years ago, is to invest Pta247bn ($2.1bn) over the next five years in modernising plants and improving products. Page 16

PORTUGAL'S central bank has halted all foreign purchase of Portuguese floating-rate bonds with immediate effect to curb "speculative capital inflows". Page 16

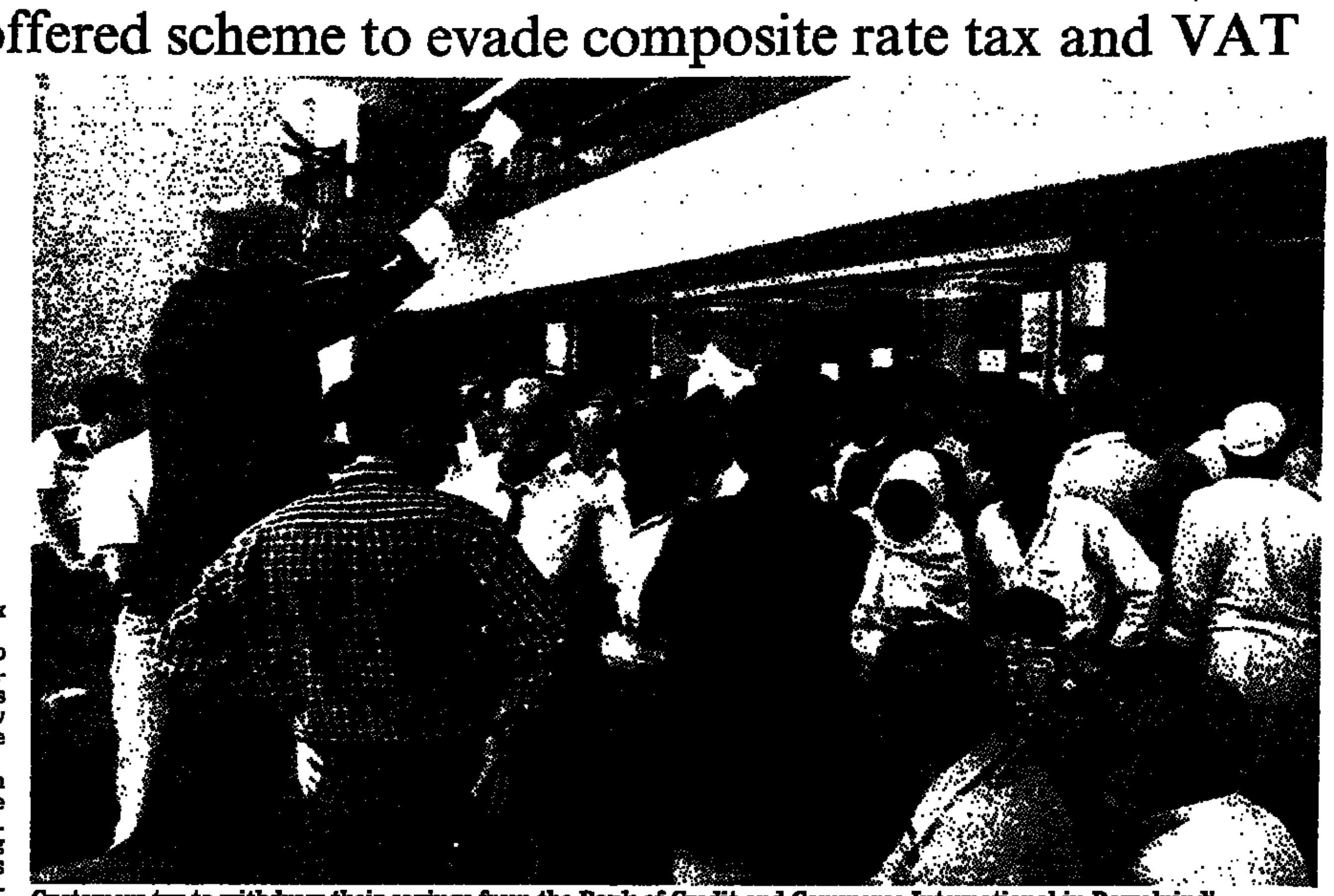
ADT, security and car auction group, said it has almost completed preparatory work for a New York stock exchange listing. Page 14

AIRLINE routes to and from Amsterdam are to be opened to greater competition in return for European Commission approval of KLM's takeover of Transavia, Dutch charter airline. Page 2

UK-based traders were offered scheme to evade composite rate tax and VAT

Secret bank inside BCCI disguised huge losses

By David Lascelles, Richard Donkin and David Waller in London



Customers try to withdraw their savings from the Bank of Credit and Commerce International in Rawalpindi

FRAUDULENT activities at the Bank of Credit and Commerce International (BCCI) were based on a secret "bank within a bank" which was used to disguise the huge losses which has been run up by the group as a whole.

According to officials close to investigations of the $20bn bank, which was shut down in a worldwide swoop by regulators last Friday, BCCI resorted to a paperchase of unrecorded deposits and loans to prevent its auditors and regulators from discovering the holes in its balance sheet.

The bank was also engaged in assisting tax evasion according to one former executive at one of the bank's big London branches.

The executive said BCCI operated a scheme in Britain that was intended to enable some predominantly Asian traders to avoid paying Value Added Tax (VAT) in their businesses and Composite Rate Tax on their deposits.

This was done by accepting deposits, but in the name of relatives living in Asia.

Officials in London also said a large number of accounts were labelled as "No correspondence", meaning the depositor did not wish BCCI to send letters or account statements to his home address for fear of alerting the local tax authorities.

The means used by BCCI to conceal its losses appear similar to so-called Ponzi schemes in which fraudsters use new investors' money to pay off the old.

BCCI took in deposits worth millions of dollars' which were not entered in the books. Instead, they were used to plug up holes created by bad loans and losses on treasury and foreign exchange trading.

In order to repay these deposits, BCCI would have had to take in further unrecorded deposits, creating a potentially endless spiral. Many of these deposits were placed by wealthy Middle East families.

Fraud of this type only works so long as new investors continue to put in new money.To succeed, such a fraud also needs the connivance of those responsible for important parts of the bank's operation.

Banking officials, however, said it was not clear whether BCCI's large depositors were being defrauded or whether they were themselves part of the cover-up.

The fraud investigation was precipitated by the discovery last March of unrecorded deposits while the 1990 accounts were being prepared.

News of the discovery, made by a new management brought into the bank, was passed to the Bank of England which then asked Price Waterhouse (PW), BCCI's auditors, to investigate.

Mr Ian Brindle, PW's senior partner, said yesterday: "You are dealing with deception and manipulation of information both inside and outside the company. Wherever you turn, whatever you are looking at, all is unreal. You are living in a world of unreality."

The Price Waterhouse report found that the bank's capital was below the level required by international "Basle" rules, though not by a large margin.

The report also identified BCCI SA, the Luxembourg arm which owns the branches in the UK, as the weakest part of the whole BCCI group.

Mr Pierre Jaans, director of Luxembourg's Monetary Institute which oversees banking in the country, told a news conference at the weekend that BCCI had posted a "huge operating loss" last year, which had not been made public.

Mr Jaans said BCCI's main operating arm, which is registered in Luxembourg, "had to take up loans to cover (the loss)...the bank probably has no capital left," he said.

Officials in London, however, said it was too early to conclude say that there was necessarily a large hole in BCCI's balance sheet. This depended on how the bank's assets look once the true picture had been found, which would take a long time.

Details and background, Page 6; Editorial Comment, Page 10; The bank that liked to say yes, Page 10

Abu Dhabi urged to aid depositors

By Alison Smith in London and Victor Mallet in Abu Dhabi

THE British government is asking the government of Abu Dhabi, a major shareholder in the Bank of Credit and Commerce International which was closed down on Friday, for help to ensure depositors get their money back.

The Bank of England said that the request was made by Mr Graham Burton, the British ambassador to the United Arab Emirates.

The UK government is due to report to parliament today.Treasury ministers, who have been kept informed of developments over the weekend, face cross-party pressure to provide a rescue plan for depositors. Some MPs from both sides of the House of Commons are privately concerned at the length of time that elapsed before the Bank of England took action.

Sheikh Zayed bin Sultan al-

Continued, Page 12

Croats and Serbs clash as EC peace effort falters

By Judy Dempsey in Ljubljana and Laura Silber in Belgrade

INTENSE negotiations between European Community foreign ministers and Yugoslavia's leaders to negotiate the future status of Slovenia's external borders continued last night as violence shifted away from Slovenia to neighbouring Croatia.

The negotiations, which are taking place on the Adriatic island of Brioni, opened as ethnic clashes between Serbs and Croats flared up in Tenje, south-eastern Croatia.

There were conflicting reports on casualties. A local Croatian police officer said dozens were believed dead, but other reports spoke of two to six deaths. Federal army troops later moved in to seperate Croatia's forces and nationalist Serbs and then imposed a temporary ceasefire. According to Belgrade radio, a Serb was also killed in the nearby town of Silovci.

The talks in Brioni, involving the foreign ministers of Luxembourg, the Netherlands and Portugal, appeared last night to stall after the Slovene ministers in Ljubljana said they wanted guarantees that any agreement would be honoured.

Mr Jelco Kacin, Slovenia's information minister,said: "I believe in signing an agreement [with the EC troika], but there are no guarantees that the agreement will be observed".

Slovene officials want guarantees that the republic's external borders would be internationally recognised.

The negotiations are aimed at reaching agreement between Slovenia and the federal government about which flag – Slovene or Yugoslav – could be hoisted at the republic's external border crossings. The negotiators also have to decide the future status of customs officers stationed at those border points.

Before June 25, when Slovenia declared its independence, these officers were paid by the federal government, and sent customs duties directly to the federal government.

Mr Kacin yesterday declined to clarify the Slovene position beyond saying that an unspecified a percentage of the customs dues would be collected for the Slovene budget and the remainder would be earmarked for the federal budget.

"I do not understand why we need more bloodshed for Slovenia to be recognised", he added.

His statement was made after Mr Janez Jansa, Slovenia's defence minister, claimed that the federal army was launching a fresh offensive against the rebel republic which declared independence on June 25.

Mr Jansa said he understood that General Blagoje Adzic, the federal army's chief of staff, had told a group of army officers at the weekend that it was time to pacify Slovenia. Mr Jansa said the army high command insisted that "Slovenia should be forced to stay in Yugoslavia".

Mr Hans Dietrich Genscher, Ger-

Continued on Page 12

Carving out Serbia, Page 2

ICI warns off Hanson with new break-up value

By Roland Rudd

MERCHANT BANK advisers of Imperial Chemical Industries believe the potential break-up value of the manufacturing company could be as high as £22 per share, valuing the group at around £16bn.

The latest valuation by Schroders, SG Warburg and Goldman Sachs is designed to put ICI, the UK's largest manufacturer, beyond the reach of Hanson, the UK conglomerate which acquired a 2.8 per cent stake in the company in May.

The valuation shows that ICI's share price, which closed last Friday at 1,276p, is potentially undervalued by more than £9 per share if the group were broken up or its pharmaceuticals business demerged.

Hanson's advisers, which have undertaken their own analysis, have come up with a comparable figure. They believe ICI's valuation is "a spectacular own goal" since it shows that the present management has failed to achieve shareholders' value.

The fact that they believe ICI's share price is undervalued, they say, explains their decision to take a stake in the company as an investment.

Hanson advisers have prepared a detailed report into ICI's performance over the past decade which shows that Britain's biggest manufacturing company compares poorly with its international rivals.

Most analysts believe a full-scale takeover of ICI would probably require a bid of around £16 a share, the peak reached by ICI shares in 1987 before the worldwide chemicals industry moved into its cyclical downturn.

However, ICI's advisers believe a predator would have to bid around £22 a share to take into account the dollar's seemingly inexorable appreciation over the past few months. Last Friday the dollar closed at $1.61 against sterling, compared with $1.96 in February.

ICI's advisers believe that, with more than 28 per cent of the group's sales generated in the US, the rise of the dollar has significantly increased the company's value.

The latest valuation will be continually updated every three weeks to take into account fluctuations in the exchange rate.

Sir Denys Henderson, ICI chairman, has instigated a daily meeting with representatives from the three banks advising the company, effectively putting the company on "red alert" against a hostile bid.

Mr Colin Short, finance director, and Mr Ronnie Hampel, director responsible for acquisitions and divestments are also part of the ICI war cabinet.

Meanwhile, ICI's advisers will continue in their attempts to persuade the US Securities and Exchange Committee to force Hanson to disclose more information relating to its profits and to Lord White's emoluments.

CONTENTS

THE MONDAY INTERVIEW

Mrs Rosalind Gilmore, UK building society commissioner, acknowledges that UK home loan institutions are in the middle of an unprecedented period of deregulation, but thinks it will not end in the same fiasco that beset the US S&Ls. Page 30

FORTHCOMING FT SURVEYS

REBUILDING KUWAIT: survey today — see panel, right.

■ TODAY:
Rebuilding Kuwait: Physical reconstruction makes progress after the military defeat of Iraq, but the country's rulers have yet to forge a vision of the "new Kuwait" which its citizens are seeking. *(See separate section.)*

■ TUESDAY JULY 9:
New Zealand: After six years of recession, the worst may be over.

■ MONDAY JULY 15:
Japan: The new decade begins with some painful political, economic and financial shocks.

■ TUESDAY JULY 16:
Gatwick as a Business Region: Britain's second airport is an engine for growth across several counties.

■ WEDNESDAY JULY 17:
European Finance & Investment: Part 7, Germany: discovering the awesome scale of the task in hand.

Milosevic seeks to turn vision into a reality

Carving Greater Serbia out of Yugoslavia promises to be a bloody process, writes **Judy Dempsey**

WHILE diplomatic activity is focused on resolving the conflict over Yugoslavia's external borders, a more bloody dispute – over the country's internal borders – is in the making.

"Whether or not the west wakes up to what is really happening in Yugoslavia, they are about to witness a most terrible and bloody end-game engineered by Slobodan Milosevic," says a Yugoslav observer. His view *is that the violent events* unfolding in his country can no longer be halted, because Mr Milosevic, president of Serbia, is set on creating a Greater Serbia.

The first step in the process was the Serbian-engineered deadlock in the federal presidency on May 15, when the Croat Mr Stipe Mesic was blocked from assuming the post. Mr Mesic, as president, would have become commander-in-chief of the armed forces, and would have been able to rein in the army. With the deadlock, the army was out of political control.

It was the Slovenes who found this most alarming and felt it was imposible to remain in Yugoslavia as long as Serbia controlled the political agenda.

"Slovenia no longer trusted Serbia," said a Slovene minister. "On the night of May 15 we knew there was no point in talking about a federation, or a community of loose sovereign *states, let alone staying* in Yugoslavia. We knew that Milosevic was bent on creating a Greater Serbia at any expense. We wanted out. And fast. We smelt evil and violence in the air."

Slovenia's government, buoyed by its citizens' mandate last December to press ahead with independence, accelerated the process of changing its constitution, and drawing up economic and political laws to distance itself from the federation.

Slovenia's declaration of independence on June 25 provided an opportunity for Mr *Milosevic to use the federal* army, and the Chetniks, the ultra-right wing royalists, to pursue his goal of a Greater Serbia.

The army remains determined to pursue its goal of securing all Yugoslavia's external borders. Thus, Slovenia's control over its external borders through its declaration of independence and the rebel republic's humiliation of federal units, dealt it a double blow.

While the army tried last week to force Slovenia into submission, Mr Milosevic continued plotting with the intention of fomenting instability in Croatia. The Chetniks were more than willing to oblige.

Over the past six months, the Chetniks, under Mr Vojislav Seselj, have been organising the ethnic Serbs in the republics of Croatia and Bosnia-Hercegovina. They share Mr Milosevic's goal: a Greater Serbia.

The Chetniks, who are recruiting volunteers for their own army in Serbia, have reawakened the latent hatred between ethnic Serbs and Croats living in Slavonia, eastern Croatia, and in the Serb-inhabited Krajina, south-eastern Croatia.

"Milosevic, through the Chetniks, wants to create a climate of fear and ethnic unrest in Croatia, so that the Croatian government will be forced to make a deal with Milosevic before blood spills into the rivers," a Serb intellectual commented.

The Serb-dominated army has played a crucial role in fitting in with Mr Milosevic's plans. By trying to teach the rebel republic of Slovenia a lesson, the army wanted to show Croatia that it would not allow that republic to secede. But its goals have begun to shift in the direction of Mr Milosevic's.

Heavily-armed federal units are now positioned close to the ethnic Serb communities in Croatia, and in Bosnia-Hercegovina. These units, made up of nationalist Serbs, are there precisely to protect the Serb minorities from the Croats.

Mr Milosevic hopes that fears that the army will fight on the side of the Serb minorities in Croatia will force the Croatian government to the negotiating table.

This may seem ironic, since Serbs and Croats harbour deep historical hatred towards each other. However, Mr Franjo Tudjman, the nationalist president of Croatia, and Mr Milosevic, share the same goals. Each wants the respective Croat and Serb minorities incorporated into his respective republics.

Realisation of these goals would involve a radical redrawing of Yugoslavia's internal borders. Indeed, Borba, the pro-federal government daily, reported last March how Croatia would cede parts of Serb-inhabited regions of Croatia to Serbia. In return, parts of western Bosnia-Hercegovina, in which ethnic Croats live, would be attached to Croatia.

The impact among the Moslem community of any carve-up of Bosnia-Hercegovina would be enormous. The Moslems, which make up 43 per cent of the republic's 4.7m population, regard Bosnia-Hercegovina as the guarantor of their security and rights as a recognised nationality.

Mr Alija Izetbegovic, president of Bosnia-Hercegovina, and a Moslem with close contacts with Libya and Iran, has warned repeatedly against any *dismemberment* of the republic. For their part, the Moslems, who are also heavily armed, would fight to defend the territorial integrity of their republic.

The federal army might support the Milosevic/Tudjman prognosis, because the army is now dominated by nationalist Serbs, and because the country's external borders would remain intact.

Furthermore, assuming Slovenia's declaration of independence stands, the army will back down from occupying Slovenia again if it can seek guarantees from the European Community, and Yugoslavia's political leaders, that the future status of Slovenia's borders will be negotiated.

However, the realisation of a Greater Serbia contains many uncertainties. It is not certain that either Mr Milosevic or President Tudjman can prevent the violence between ethnic Serbs and Croats in Croatia from escalating into a full-scale civil war, in which the Serb-dominated army would side with the ethnic Serbs.

This would leave many questions unanswered. What future role, for instance, would the army play? After a bloody ethnic/civil war, would it return to barracks, content that it had temporarily secured the country's borders, as well as having secured a Greater Serbia?

What would happen to the Moslems, who have not forgotten how in 1918 they were used as pawns by Serbia and Croatia, and who now see their status as a nation being undermined by these two republics? How would the ethnic Albanians in Kosovo react to living as second-class citizens in a Greater Serbia?

If anyone held any illusions that reining Slovenia in, or reaching a temporary compromise over the republic's external borders, would ensure peace, the future is likely to disabuse them of such notions.

Moscow tries to placate republics before G7 talks

By John Lloyd in Moscow

ONE OF the participants in talks aimed at agreeing a new union treaty for the Soviet Union has said the treaty will be "left open" for all republics to sign. This would defuse confrontation and allow President Mikhail Gorbachev to claim progress on the issue when he meets heads of the seven big industrial nations in London next week.

Mr Mintimer Shaimiev, president of Tatarstan – the autonomous republic within the Russian federation which now claims full union republic status and insists on signing the treaty as an independent state – said in an interview that "all the republics that make up the Soviet Union will not sign it together – but it will soon be open for them to sign.

"I think there certainly will be a treaty, because Russia will sign it. There is a problem with the Ukraine but even here some parts of that republic have insisted that the treaty is signed."

The device of leaving open the treaty would mean that the eight union republics which have presently indicated willingness to sign would do so while the others would have the opportunity to do so within a specified timeframe. At the same time, all 15 republics would be invited to continue talks on an economic agreement, seen by many as more important.

The Soviet leadership will make concerted efforts over the next week, before Mr Gorbachev leaves for the London Group of Seven meeting, to reach agreement with the republics on a programme for political and economic change.

Mr Gorbachev is to meet the republican leaders at least once before the London summit, and is expected to make further concessions in an effort to convince the west that he has strong support for reforms which *he will ask them to assist.*

He has been buoyed by the decision on Friday by the Russian parliament to sign the treaty – though only after it voted to empower its delegation to the treaty talks to seek big changes in the fields of control of enterprises, licensing of imports and exports, collection of customs tariffs and taxation.

He has also received a pledge from Mr Helmut Kohl, the German chancellor, of his support in London, *following* a meeting on Friday near the Ukrainian capital of Kiev. The German leader was said to have "coached" Mr Gorbachev on his presentation.

Mr Grigory Yavlinsky, the former Russian deputy premier and main author of a plan developed with the aid of US experts to transform the Soviet economy with western assistance, returned to Moscow this weekend after a week-long trip around Europe. He was said to have received encouraging reponses from European officials on his plan.

Big problems remain in the union treaty – especially with Ukraine, which has refused to debate it until September and where political leaders say they may never agree to its signing. At the same time, the Russian leadership sees the refusal of Tatarstan itself to join the union as a constituent part of the Russian Federation as a dangerous precedent for *the other 15 autonomous* republics on its territory, which together make up about half of its vast land mass.

Mr Shaimiev, who was elected president of Tatarstan on June 12 – the same day as Mr Boris Yeltsin was elected Russian president – said the other autonomous republics would soon also insist on separate status. The Tatarstan Supreme Soviet voted on Friday to set up a series of new ministries and to create its own central bank.

Serbs begin to see the once-hated Chetniks in rather a different light

By Laura Silber in Belgrade

YOUNG MEN in the centre of Belgrade, the Serbian and federal capital, hawk their wares – from cassettes of mournful war ballads to T-shirts bearing the image of General Draza Mihailovic, leader of the Chetniks, Serbian royalist troops in the second world war.

Until last year, the word Chetnik conjured up images of wartime brutality and betrayal among most of Yugoslavia's 23.5m citizens. But now the Chetniks have surged in popularity and many Serbs see them as the saviours of Serbian interests.

The Chetniks were an *elite guerrilla* unit in the Serbian royal army. They fought against the Nazis, and were backed by the Allies until 1943 when the British and Americans switched their support to the communist partisans under Marshal Tito. Gen Mihailovic was executed as a traitor to Yugoslavia in 1945.

Yet now mothers buy their sons Mihailovic mementos and teenagers proudly claim they are Chetniks.

Mr Vojislav Seselj, a self-proclaimed Chetnik *vojvoda*, or duke, who won a by-election to the republic's national assembly last week, takes his seat in the parliament this week. Mr Seselj, who habitually carries a pistol, heads the ultra-nationalist Radical party and has boasted that 14 of his Chetnik volunteers fought in a skirmish in Borovo Selo in eastern Croatia in May in which 12 Croat policemen were killed.

However, their growing prominence has further divided Serbia. To some, the popular acceptance of the Chetniks revives nightmarish memories of the war. "When I see them in Belgrade's city centre, I nearly scream. The Chetniks slaughtered three of my relatives and now they have become heroes," says a 32-year-old English teacher.

Marjan, an 18-year-old who has joined the Chetnik guard, says: "Under communism the Chetniks were painted as the *enemies, although they originally had* Allied support. After the war the process of eliminating the enemies began. Chetniks were then portrayed as the merciless butchers of women and children.

"I don't know whether or not the Chetniks actually slaughtered innocents. But it was during both a civil war and a national liberation war. Those were barbaric times."

The leaders of Serbia and Croatia, the second biggest republic, have revived memories of the brutal civil war of 1941. Serbia says the Croat government is fascist, or Ustasha, after the Nazi-backed independent Croatia. Serbia's propaganda is matched by Croatia, which warns of an impending attack by the Chetniks.

"Serbian nationalists think the Chetniks are the only appropriate answer to the Ustashe, and for them the Croat government is certainly Ustase," says a Belgrade journalist.

Leaders of Serbian ultranationalist parties claim thousands of volunteers have already joined the Chetniks. Their battalions recall Serbian war heroes with names such as "Dusan the Strong". But the surge of mass support, including an evident lack of criticism by the socialist-controlled media, has led critics to charge Serbia under President Slobodan Milosevic of using the Chetniks and their leaders to whip up nationalism and mobilise the youth.

Mr Stojan Cerovic, a Belgrade journalist, says: "The question remains how many of these volunteers will actually go – for three years extremists have demanded arms to defend Serbs against the Albanians in Kosovo, although in the end nobody went," he says.

Most Serbs agree the republic must form its own army, as the federal army threatens to collapse and divide along ethnic lines. A Belgrade history teacher says: "After the war in Slovenia, even moderates now believe in the necessity of a Serbian army to protect Serbs. They may disagree with Seselj and the Chetniks, but they see the Yugoslav People's Army is a phantom. Croats, Slovenes and Serbs can no longer fight on the same side in one army."

A prayer for peace in Yugoslavia

Bush urges Soviet side to be more flexible over Start

By Peter Riddell, US Editor, in Washington

THE US has urged the Soviet leadership to show more flexibility if negotiations over the treaty to reduce each side's strategic nuclear weapons (Start) are to completed in time for a summit in Moscow at the end of this month.

A message from President George Bush was delivered to President Mikhail Gorbachev at the weekend following only limited progress in talks in Geneva over the past two weeks.

The US has suggested a meeting this week in Washington between Mr James Baker, US secretary of state, and Mr Alexander Bessmertnykh, Soviet foreign minister.

If this breaks the logjam, then the date of the Moscow summit could be announced when the two presidents meet briefly in London next week.

Senior US officials involved in the talks say that, while there is no stalemate, the Soviet negotiators are not behaving as if they are under orders from the top to finalise a deal as quickly as possible.

The US made a number of compromise proposals at the last Geneva meeting, but received no more than a formal response from the Soviet side. US officials are unsure whether this reflects internal arguments within the Soviet leadership and military.

The US has said that at least the broad outlines of a Start treaty must be ready before a Moscow summit occurs.

Mr Bush said he wanted to get the Soviet team "moving forward as fast as ours is. I think he [Mr Gorbachev] is very interested, and what I want to do is be sure that he energises his bureaucracy just as we've energised ours, and his military particularly."

He said his message to the Soviet leader was "strictly to express once again our continued interest in getting this Start agreement finished. He knows and we know that to get a summit agreement, that must be finished up."

Mr Baker said "we're getting short on time if we're going to have a summit by the end of July."

Among the issues holding up agreement are definitions of what constitutes a new missile, how many warheads can be deployed on missiles, procedures for inspecting missile factories, and limits on encryption of transmissions from missile test flights.

The two sides have already agreed on phased reductions in long-range missiles and bombers over seven years, as well as numerical limits for nuclear warheads.

Mr Bush is determined to avoid any ambiguity in the treaty to avoid problems in its ratification by the US Senate.

Bonn ready to discuss speed limits

By Ronald van de Krol in Rotterdam

GERMANY is prepared to discuss European Community-wide speed limits for trucks and buses but insists that any vote to introduce them must be unanimous.

Mrs Hanja Maij-Weggen, the Dutch transport minister, said at the end of an informal two-day meeting of EC transport ministers that Germany was *expected to* make a positive contribution to the debate on speed limits and that it was not pushing for unanimity in order to block progress.

Until now Germany has been reluctant to discuss the matter for fear of setting a precedent for passenger cars. It is the only country in Europe which has no speed limits for cars on motorways.

The Netherlands, which took over the EC presidency for six months on July 1, has set itself an ambitious agenda on transport, a sector which is of crucial importance to its economy.

Mrs Maij-Weggen said that of the 20 remaining "dossiers" on transport which had to be completed before the single market took effect, the Dutch hoped to reach agreement on eight to 10 by the end of this year.

These include the issue of widening access to domestic markets for both coach transport and road haulage across the EC. Currently, a Dutch tour operator may transport holidaymakers from the Netherlands to Spain but may not offer coach services to Spaniards within Spain.

Other issues which the Dutch hope to settle during their presidency are the harmonisation of motor vehicle taxes and of licences needed to operate inland waterway vessels and aircraft.

The Dutch will push for agreement on these issues at meetings of transport ministers in October and December.

Brussels approves takeover by KLM

By Andrew Hill in Brussels

THE Dutch authorities have agreed to increase competition on airline routes to and from Amsterdam in return for European Commission approval of KLM's takeover of Transavia, the Dutch charter airline.

KLM already owns 40 per cent of Transavia, and has agreed to buy a further 40 per cent from Nedlloyd, the Dutch shipping and energy group.

Sir Leon Brittan, EC competition commissioner, approved the sale but extracted concessions on increased competition. The deal is similar to that he struck last year with the French when Air France took over two of its main rivals.

The Dutch authorities have said that by September 1 they will invite applications from Dutch airlines other than KLM, and from other Community airlines, to operate services on several routes, and will grant those airlines more licences in coming seasons.

They have also agreed to grant Dutch airlines other than KLM licences on 10 domestic routes, and have abolished price restrictions on charter services. At the same time KLM has said it will not try to buy an interest in other Dutch airlines operating European services, or influence their management.

Top Democrat backs inquiry into hostage deal allegations

By Lionel Barber in Washington

MR Lee Hamilton, a leading House Democrat, called yesterday for a public inquiry into allegations that the Reagan-Bush campaign struck a deal *with Iran to delay the release* of American hostages until after the 1980 election.

Mr Hamilton's position could tip the balance in favour of a congressional investigation into the long-standing but never proven allegations. The House Democratic leadership has been fearful of endorsing an inquiry because of hostile Republican reaction.

A foretaste emerged yesterday when Mr Ed Meese, chief of staff in the Reagan campaign who later served as attorney-general, said the allegations were being revived as a means of excusing the "terrible defeat" of President Jimmy Carter in November 1980.

"There is absolutely no truth in these very fraudulent series of allegations," Mr Meese said in a television interview.

Momentum for a public inquiry has been growing since April when Mr Gary Sick, a former Carter administration official, wrote an article claiming Mr William Casey, the Reagan campaign manager, had held meetings with Iranian representatives in Europe late in July and August 1980.

Former President Ronald Reagan recently ordered a review of the 1980 election campaign records stored in his presidential library at Thou*sand Oaks, California*. The review would be conducted by the National Archives and Records Service, Mr Meese said, noting, however, that the FBI had already done a search.

Although Mr Hamilton said it was time to clear the air, he was careful to avoid calling for a full-scale congressional inquiry with subpoena powers, such as the Iran-Contra investigation in 1986-87. The first step should be to examine written records, he said.

Publishers claim a Commission climbdown, but wonder what exactly Jacques Delors was driving at

Europe's press barons keep Brussels at bay – for now

By Raymond Snoddy

THE ATTITUDE of many publishers and journalists at last week's Luxembourg Assize, or consultative congress, on the press was best summed up by Mr Jens Linde, a Danish journalist.

Any sign of the European Commission interfering in the affairs of the newspaper industry, he said, "caused an allergic reaction". Mr Linde himself believed that Brussels had a *role in areas such as training* and standardisation of technology, but most delegates were occupied by larger fears.

The Commission was told clearly last week that Europe's newspaper industry wants neither a media policy nor a green paper on the press. Most do not even want a press forum to continue discussion of issues affecting the European press in a Community context, in case it should be hijacked by the Commission or develop into a Europe-wide forum for negotiation between employers and employees. After long and sometimes bitter debate the proposals for a press forum were relegated to the appendices of the assize's final reports.

Instead, there were ringing declarations that freedom of the press would best be protected by recognising and retaining its national diversity. And rather than contemplating a media policy for the newspaper industry, the Commission should think again about draft directives such as those imposing restrictions on advertising.

Bans on certain types of advertising – tobacco and alcohol – and restrictions over *other products such as pharmaceuticals* and food could eventually cost the European newspaper industry 10 per cent of its revenues, according to some estimates.

The assize had begun in an atmosphere of suspicion. Who had called it? What was its purpose? And why were the European Commission and the Luxembourg government effectively sponsoring the congress?

Fears were heightened when a member of the staff of Mr Jean Dondelinger, the culture and information commissioner, commented that the assize would help determine the direction for future action.

Mr Jacques Delors, *president* of the Commission, added to the suspicion when he opened the assize. While issues affecting newspapers and magazines would largely remain a matter for individual nations, there were some needs and problems *that could be more easily* solved at the Community level. There could be "one minimum set of rules of the game". There could also be discussions about controls of "mergers and groupings beyond a certain threshold".

Before the congress, Mr Leon Brittan, the competition commissioner, had advised British publishers that although nothing would *come* out of they should turn up to challenge arguments with which they did not agree. As a result a powerful British delegation arrived, including Viscount Rothermere, chairman of Associated Newspapers, and Sir Frank Rogers, deputy chairman of the Daily Telegraph.

Sir Frank issued a blunt plea to the Commission – "please keep out of our business". His best hopes for the meeting were that it would achieve nothing.

Mr Hugues Vincent Barbe, first vice-president of the Parisian Publishers Association, insisted that domestic legislation was sufficient. "The less Brussels interferes in this matter the better the press in Europe will be," he said.

Mrs Renata Damm, of German publisher Axel Springer, told the Commission: "I think we need to issue a warning that we don't want our meeting to culminate in a directive on press without frontiers."

The main support for greater dialogue with the Commission came from union representatives. Mr Jake Ecclestone, deputy general secretary of Britain's *National Union of* Journalists, for example, denounced UK publishers as "throwbacks to the 19th century" who were in a panic about having to talk to employees in a European context.

At the end, Mr Dondelinger *felt the need to be as unambig*uous as a European Community commissioner can be: "Many are suspicious that the Commission intends to publish a green paper on the press. There is no question of a green paper being published."

Admitting to the ranks of publishers and senior journalists that it was they, as usual, who would have the last word, *he also said he did not want* any permanent forum set up.

Publishers saw it as a Commission climbdown and expressed satisfaction that little concrete had been decided other than a vague commitment to perhaps have a dia*logue among themselves* if a way could be found to do it.

The European newspaper publishers' association was particularly pleased. It is to have a meeting with Mr Delors later this month on the other things that really concern – *the series of draft* directives that impinge on its members' business – but also to ask him what he meant when he said in Luxembourg there should be a minimum set of rules for the game.

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Big Five's opening salvo on world weapons trade

Ian Davidson and Peter Riddell look at the arms control agenda before the five permanent members of the United Nations Security Council

A FIRST round of exploratory talks on controlling the international arms trade opens in Paris today among senior officials from the five permanent members of the United Nations Security Council.

High on the agenda will be the British proposal for an international register of arms sales, under the aegis of the UN.

The meeting follows a US proposal for controls on arms sales to the Middle East, put forward by President George Bush on May 29, and the comprehensive French arms control programme launched by President François Mitterrand on June 3.

The US wants the Paris conference to discuss guidelines for restraining destabilising transfers of conventional weapons to the Middle East, including mutual notification of certain sales.

This is in addition to Mr Bush's proposals five weeks ago for a ban on sales to countries in the region of surface-to-surface missiles and chemical weapons and their associated technology.

The US regards Mr Bush's proposals as complementary to French and British calls for an international register of arms sales with global, rather than just regional, coverage.

The Bush administration has been careful not to exclude all conventional arms sales to the Middle East on the grounds of "the legitimate need of every state to defend itself".

Since the end of the Gulf war the US has promised to sell more F-15 aircraft to Israel and Apache attack helicopters to the United Arab Emirates and to Bahrain.

The US is keen to tie the Soviet Union and China into continuing discussions, particularly in view of Beijing's refusal to join the missile technology control regime and the current dispute over its missile sales to Pakistan.

US officials hope that sufficient progress can be made over the next two days for some statement on weapons proliferation to be considered by the Group of Seven heads of government at their summit in London in a week's time.

Japan, which will not be present at the Paris meeting but will be at the London summit, is backing a plan requiring reporting of all arms sales, to be monitored by the UN.

The case for more effective international arms controls was dramatically underlined by the Gulf war.

It has been further reinforced by subsequent revelations of previously unsuspected arms sales to Iraq, by companies in Britain and the US.

The main obstacle to more effective arms controls is that the Big Five are also the world's leading arms suppliers, and none of them has yet offered to sacrifice its commercial interests.

On the contrary, the victory of the UN coalition in the Gulf war has only served to increase foreign demand for western weapons.

French export orders for weapons and other military matériel last year shot up by nearly 70 per cent to FFr33.4bn (£3.4bn), compared with about FFr20bn in 1989.

The impact of the Gulf crisis showed up dramatically in the geographical break-down: just over 60 per cent of last year's orders were from countries in the Middle East or North Africa, compared with only 28 per cent in 1989.

Japan steps up Iran deals probe

By Robert Thomson in Tokyo

THE Japanese government has intensified an investigation into Japan Aviation Electronics Industry Company, the NEC Corporation subsidiary which has admitted shipping missile parts to Iran and is alleged to have supplied navigation technology to upgrade Iranian jet fighters.

The Ministry of International Trade and Industry (Miti) questioned JAEI officials over the weekend and police are continuing their inquiry into the company, which is a world leader in navigation technology for aircraft and rockets.

It is understood that US investigators tipped off Miti last February about technology exports to Iran from 1984 which broke Japanese laws.

JAEI initially denied involvement. However, a further query from US investigators led to Friday's raids on JAEI offices and an admission that the company had exported 1,500 flywheels to stabilise Sidewinder air-to-air missiles.

Japanese police claim the company also exported Y700m (about $5m) in navigation equipment for F4 Phantom jets, although the company has not formally commented.

Israel rejects Lebanon withdrawal call

By Hugh Carnegy in Jerusalem

ISRAEL made clear yesterday it would not withdraw troops from Lebanon until Syria did the same, rejecting calls from Beirut for a pullback following last week's subjugation by the Lebanese army of Palestinian guerrillas in the south.

Israel had previously called for south Lebanon, from where Palestinian and Lebanese Moslem guerrillas frequently strike at Israeli targets, to be brought under central government control as a prime condition for its own withdrawal. It had placed less emphasis on about 40,000 Syrian troops in Lebanon.

But ministers meeting yesterday adopted a tough stance reflecting their hostility to President Elias Hrawi's Syrian-backed government, which they portray as little more than a puppet of Damascus, and scepticism that the Lebanese army action will end guerrilla attacks.

Lebanese troops began collecting arms from Palestine Liberation Organisation guerrillas over the weekend after capturing the last PLO bases near Israel and confining PLO fighters to two refugee camps near the port of Sidon.

The offensive was a significant step forward by Beirut in its drive to regain control of the south after years of civil war. It wants to complete the process by securing an Israeli withdrawal from the border "security zone" occupied by Israeli troops in defiance of UN Security Council resolution 425.

President Hrawi was reported to have sought US help in achieving this in a meeting on Saturday with Mr Ryan Crocker, US ambassador in Beirut.

But Mr David Levy, the Israeli foreign minister, said yesterday: "When all foreign forces leave Lebanon and a sovereign Lebanese government wishes to negotiate the future and peace with Israel... then it will find the Israeli government ready. But as long as there are foreign forces and a foreign presence in Lebanon, who are certainly not sympathetic to Israel, Israel should do everything to protect its citizens and towns."

The next point of dispute, after the Lebanese army's deployment in and around Sidon, is likely to be Jezzine, a town outside Israel's security zone but controlled by the South Lebanese Army, a local militia run by Israel.

Jordan lifts martial law imposed in 1967

JORDAN yesterday announced an end to the martial law in force since the 1967 Arab-Israeli war, according to the state news agency Petra, Reuter reports from Amman.

Petra said King Hussein had approved a request from the new government of prime minister Taher al-Masri to cancel martial law, in line with moves "to continue building our democratic march and give greater political freedoms".

The decision takes effect from today.

The king's move is likely to boost the position of Mr Masri, the first Palestinian-born prime minister, when he seeks a vote of confidence from parliament later this month.

Cases currently before martial law courts will be heard by those courts. These include the case of Petra Bank, in liquidation after an alleged multi-million dollar fraud. Cases involving national security will be dealt with under a state security law awaiting parliamentary approval.

Arabs postpone talks on force for Kuwait

THE FOREIGN ministers of Egypt, Syria and the six Gulf Co-operation Council members have postponed for a few days troubled talks on creating a joint Arab force to protect the emirate, agencies report from Kuwait City.

The ministers were due to meet in Kuwait tomorrow to review plans to set up the force, dogged by controversy since the countries agreed the broad terms for such a deployment in the March 6 Damascus declaration.

The Kuwaiti Information Ministry, announcing the postponement, said no new date had been set and gave no reason for the deferral.

Diplomats have said the eight countries are still at odds over the size, cost and composition of the Arab force.

However, Mr Amr Moussa, the Egyptian foreign minister, said in Cairo that the delay was due to scheduling problems and that the meeting would proceed next week in Kuwait.

Further crackdown on Algerian opposition

RIOT POLICE arrested another senior leader of the Moslem fundamentalist opposition in Algeria yesterday, while a human rights group demanded an inquiry into the crackdown under a state of emergency, AP reports from Algiers.

Ali-Yahia Abdennour, president of the Algerian League for the Defence of Human Rights, said there may have been 8,000 arrests and 300 deaths since June 4. His figures, which he said were unverified, are far higher than the 1,367 arrests and 55 deaths confirmed by the government.

The two top leaders of the main fundamentalist party, the Islamic Salvation Front, were arrested on June 30. One of the highest-ranking leaders still at liberty, Mohammed Said, was arrested yesterday.

Said was taken away by riot police while holding a news conference in an Algiers suburb to announce he was taking over temporarily as the front's chief spokesman. Before his arrest he passed on an appeal from the front's arrested president, Abassi Madani, that the movement strive to avoid a ban so it would not have to go underground.

Said had urged release of all arrested fundamentalists and an end to the emergency. He said he did not know how many people had been arrested.

Abdennour said his estimates of arrests and deaths were based on unverified information received by his office from across the country. He said many of those arrested had been taken by military authorities to secret detention centres.

Paris-Tehran talks on nuclear loans break up

By William Dawkins in Paris

PARIS and Tehran have been forced to adjourn their latest talks on a lengthy dispute over millions of dollars of loans and contracts for Iran's nuclear energy programme, halted by the 1979 Iranian revolution.

No date has been set for a new meeting, following the departure from Paris of an Iranian delegation led by Mr Ali Akbar Velayati, the Iranian foreign minister, French officials said.

Talks broke down when Iran demanded access to enriched uranium from Eurodif, a French enrichment plant, in which the Shah's regime acquired a small minority stake alongside Belgian, Spanish and Italian nuclear authorities in the early 1970s.

Iran has no functioning nuclear reactor. France has only recently decided to sign the 1968 nuclear non-proliferation treaty and is extremely sensitive about exports of nuclear material.

The starting point of the dispute is a $1bn loan by the Shah to the French Atomic Energy Commissariat (CEA) for the construction of Eurodif's plant in the Drôme, southern France.

France has repaid only $630m of the loan and differs with Iran over calculations of the capital and interest outstanding.

France also wants compensation for more than FFr14bn ($2.25bn) worth of contracts to build nuclear power stations in Iran, cancelled at the start of Ayatollah Khomeini's regime.

The dispute, plus France's support for Iraq in the Iran-Iraq war, has clouded Franco-Iranian relations and complicated efforts by Mr Roland Dumas, French foreign minister, to redress the balance of Paris' Middle East relations.

French officials said negotiations would continue. The breakdown did not change President François Mitterrand's decision to visit Iran in the autumn, which would present another opportunity to iron out differences.

● President Akbar Hashemi Rafsanjani of Iran has said his country is determined to complete the war-damaged Bushehr nuclear plant abandoned by German contractors, Reuter reports from Nicosia.

"We are determined to complete this major project," the Iranian news agency Irna yesterday quoted Mr Rafsanjani as saying in a letter to Mr Reza Amrollahi, head of Iran's Atomic Energy Organisation.

Mr Jürgen Möllemann, German economics minister, said during a visit to Tehran last month that Germany would not help rebuild the plant bombed during the 1980-88 Iran-Iraq war.

Iran has been pressing Germany to resume work on the project but Mr Möllemann said his country would continue to follow a restrictive policy on exports of products with both civilian and military applications.

Liberia tops summit agenda

WEST AFRICAN leaders ended summit talks at the weekend saying they hoped a new regional peace plan would resolve Liberia's long-running civil war, Reuter reports from Abuja, Nigeria.

However, Sierra Leone, a member of the 16-nation Economic Community of West African States (Ecowas) grouping, complained that the accord did not address the related problem of rebel incursions into its territory.

The summit, called by President Felix Houphouet-Boigny of the Ivory Coast and attended by four other Ecowas presidents, was dominated by the Liberian war. It examined a new peace accord reached on June 30 in the Ivorian city of Yamoussoukro, where Liberia's interim president, Mr Amos Saywer, and Mr Charles Taylor, the main rebel leader, agreed to hold elections under international supervision within six months.

But Mr Abdul Karim Koroma, the Sierra Leone foreign minister, said the Yamoussoukro talks, which did not include his country, did little to stop the spread of the Liberian conflict into Sierra Leone. Mr Taylor's NPFL, which started the bloody rebellion in 1989 to topple the late President Samuel Doe, took the fighting to Sierra Leone last March. Mr Taylor denies his men are involved, blaming Sierra Leone dissidents.

An Ecowas summit communique, without mentioning Mr Taylor as the culprit, urged member states to give Sierra Leone human and material assistance to repel the rebel invasion.

The World Bank's Development Report emphasises the importance of market liberalisation, writes **Michael Prowse**

Investment in people seen as key to Third World growth

THE LESSON of 40 years of development experience, says the latest World Development Report, is that Third World governments should invest in people and liberalise markets.

The report, one of the World Bank's most ambitious, stresses that markets and the state have crucial roles in promoting growth and fairer distribution of income. It suggests the chequered history of development since the 1950s reflects frequent confusion of roles: governments interfered too heavily in the economy but did not do enough in areas such as education, health care and infrastructure.

Releasing the report in Washington, Mr Lawrence Summers, the World Bank's chief economist, said the challenge of development was more important than ever, given that 95 per cent of the world's labour force growth over the next 25 years would be in developing countries. At present more than 1bn people – a fifth of the world's population – live on less than $1 a day.

Mr Summers highlighted enormous divergence in the performance of developing countries. Some had raised per capita incomes more than five-fold in four decades, while a quarter were worse off today than in the 1960s. He said the sharp difference in performance had encouraged convergent views about the best way forward.

"More than at any time within memory, there is a consensus on the key elements of a 'market friendly' approach to development."

The "new consensus" enshrined in the report rests on four pillars:

- Investment in people. Developing countries must spend more on primary education, basic health care, nutrition, and family priorities. In many countries a stronger focus on human capital requires a sharp curbing of wasteful military spending.
- Improving the climate for enterprise. Governments need to intervene less in industrial and agricultural pricing, deregulate entry to markets, and focus on improving infrastructure and the institutions – such as the legal system – underpinning business.
- Open embrace of international trade and investment. Developing countries should reduce tariffs substantially and impose fewer non-tariff barriers to trade. A decisive move away from discretionary forms of control is needed.
- Firm macro-economic policies. Governments need to ensure fiscal deficits are low and that inflation is kept in check. Market-based incentives for saving and investment are essential to ensure domestic resources are available to finance development.

The report says the four elements should feed off each other. "Investing in people spurs productivity all the more powerfully in an economy that already has undistorted domestic markets; at the same time, efficient domestic markets increase the returns from education and therefore make an expansion of investment in education easier to bring about.

"A stable macro-economy makes it easier to withstand the external shocks that linkages to the global economy cause from time to time; conversely, global linkages provide access to foreign capital, which makes it easier to maintain domestic macro-economic stability in the face of shocks."

Mr Vinod Thomas, leader of the team that produced the report, said the "key to dramatic success is the synergy between investments in human capital on the one side, and an open and competitive policy environment on the other".

Bank analysis of 60 developing countries indicated that countries which invested heavily in education and removed economic distortions grew at an average annual rate of 5.5 per cent between 1965 and 1987.

Countries that embraced only one of these policies grew at just under 4 per cent. Countries that pursued neither policy grew at about 3 per cent.

The bank's stress on the importance of the policy environment is supported by a micro-economic analysis of 1,200 bank-financed projects over the past 20 years. The return on projects in countries with minimally-distorted foreign exchange markets was about 18 per cent, compared with only 8 per cent under heavily-distorted regimes.

More generally, undistorted policies raised the return on projects by at least 50 per cent.

The report says industrialised countries can do much to improve Third World prospects. The first priority should be a successful conclusion of the stalled Uruguay Round trade liberalisation talks. The report notes that developing countries would receive an extra $55bn (£34.3bn) in export earnings if they were granted unrestricted access to industrial country markets – as much as they currently receive in aid transfers.

Industrial countries should also lend more willingly to the developing world. The report says the 1989 debt relief initiative launched by Mr Nicholas Brady, the US Treasury secretary, has produced results "only in a handful of middle income countries".

The relief extended, moreover, has been "modest". The bank criticises the softer "Toronto" terms agreed for bilateral official debt to low-income countries as not generous enough. Further initiatives on debt relief would be needed.

The report concedes that growth prospects in the developing world will inevitably depend on the ability of industrialised countries to deliver steady non-inflationary growth. But it says policies in developing countries themselves are more important.

Holding domestic policies constant, improvements in the global economic climate could raise Third World growth by as much as 1.5 percentage points a year. But with external conditions held constant, the difference between poor and excellent domestic policies is worth about 3.5 percentage points of growth a year.

In 20 years a country that followed the bank's "market friendly" development strategy could have twice the income of one that stuck with bad policies.

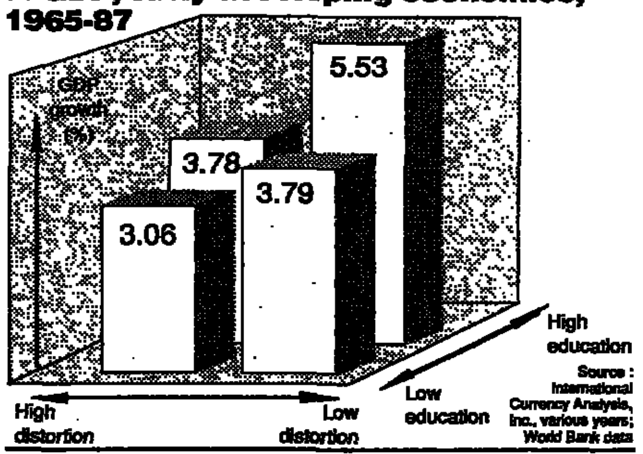
The report's overall tone is cautiously optimistic. Past experience shows that rapid development is possible; indeed, with advances in technology, the time required to achieve substantial changes in the quality of life has shrunk steadily.

Starting in 1780, the UK took 58 years to double its per capita output. Beginning in 1885, Japan took 34 years. Starting in 1977, China doubled living standards in only a decade.

The bank is confident that, with the right policies, even the poorest developing countries can dramatically increase per capita incomes.

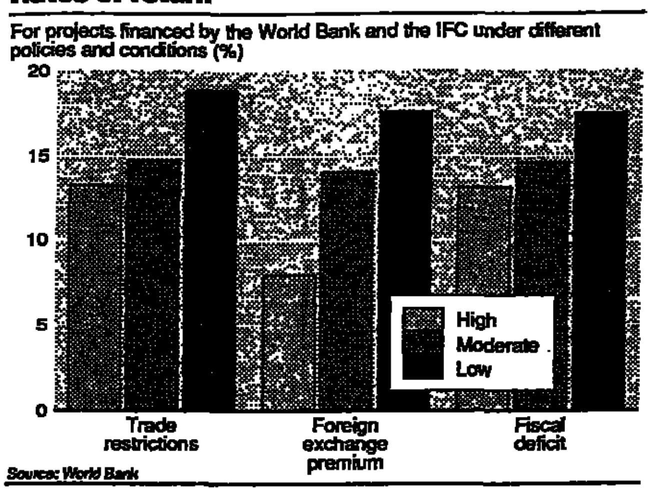
The Challenge of Development. World Development Report 1991. Oxford University Press.

Policy distortion, education, and growth in GDP, sixty developing economies, 1965-87



Rates of return

For projects financed by the World Bank and the IFC under different policies and conditions (%)



Source: World Bank

Economists' faith in 'new consensus' raises old concerns

THE World Bank's 6,000 mostly Washington-based staff have rarely hesitated to tell developing countries how to manage their affairs, writes Michael Prowse. But the 1991 development report reads like a teaching manual; reading it, one gets the impression the bank believes it has found the philosopher's stone of development economics.

The recommended strategy advocates heavy reliance on private markets but finds a supporting role for the state in areas such as health, education and infrastructure. The admission that governments can play a useful, if limited, role is a welcome retreat from even more conservative policies advocated in the 1980s.

But it seems inherently implausible that a single set of policies will suit all developing countries at all times. The bank's faith in what it dubs a "new consensus" brings to mind a period immediately after the Second World War when development economists – including World Bank heavyweights – last thought they knew it all. Conventional wisdom then looked rather different.

The elixir of growth was thought to lie in state-directed increases in physical investment. Markets were regarded as an unreliable tool in primitive economies and many sectors were nationalised. Trade was seen as of only peripheral importance and countries erected protective barriers while producing domestic substitutes for imported goods. Agriculture was discriminated against to accelerate industrialisation.

Many now chuckle at this "foolish" advice. The countries that have done best, such as South Korea, ignored much of it while steering clear of free-market ideology. Yet the economists responsible for the *old* consensus were just as bright and committed as today's generation.

This raises a disturbing possibility: with the benefit of hindsight, will analysts in 2031 be as scathingly critical of today's "new consensus"?

In purely economic terms, they may argue that the bank's faith in markets is excessive. After all the bank's own analysis suggests market-oriented structural adjustment programmes in the 1980s had a negligible impact on living standards. But a deeper criticism may be the narrowness of the bank's focus; the report touches only briefly on issues such as protection of the environment and restraint of population growth.

The official excuse for ignoring the environment is that this is the topic of next year's development report. But the bank's ability to segment discussion of issues such as development and the environment is symptomatic of a deeper intellectual flaw: a failure to think imaginatively about the future. This report implicitly assumes that any country can ultimately achieve the living standards of the US – provided its policies are sufficiently market friendly.

But there are 4bn people in developing countries. If all aspire to Uncle Sam's way of life, global warming will surely become global boiling; many forms of pollution – often an automatic by-product of growth – *could become intolerable*.

An aversion to markets and a failure to invest in people may be the only important constraints on Third World development. But the bank's case is not proven by citing a few recent success stories and dodging the hard questions. The existence of millionaires does not prove that everybody can be one.

Appeal for curbs in military spending

On the offensive: the bank wants developing countries to reduce weapons purchases

A STRONG plea for reduced military spending in the developed world is made by the World Bank, writes Michael Prowse. It hints that aid and other financial support ought to depend on countries' willingness to invest domestic resources productively.

"Governments need to take every possible step to reduce military spending," the report says. Developing countries spend about $170bn (£106bn) a year on defence, 5 per cent of gross domestic product, and more than three times total aid transfers from rich countries. In 12 developing countries – including Iraq, Angola and Israel – military spending exceeds 10 per cent of GDP.

Average defence spending has fallen from about 6-7 per cent of GDP in the late 1970s, partly because of fiscal pressures of the debt crisis. But many countries still spend more on the military than on all social programmes combined.

The resources given to the military would often be sufficient to double spending on infrastructure or on health and education.

The bank cites Costa Rica as *the outstanding example* of a country which opted to reduce its defence budget and pump resources into social policies. It now spends less than 1 per cent of GDP on the military and more than 10 per cent on health and education combined. This has "improved equity and achieved a degree of political stability unusual in the developing world".

The report acknowledges that many countries face larger internal and external threats than Costa Rica but claims that the threats "rarely justify the sums being spent on armed might". It says aid and finance agencies are "entitled to ask whether it makes sense to help governments whose first priority is not to develop, but to add to, military strength".

The bank hints that desirable reductions in developing country military budgets will also depend on industrial countries' willingness to help underwrite security arrangements and restrain the arms industry.

Per capita growth projection at 2.9%

By Michael Prowse

THE World Bank's "baseline" projection is for real per capita growth of 2.9 per cent a year in developing countries during the 1990s. This compares favourably with 1.6 per cent in the 1980s and is above the trend of the past quarter-century.

The optimism assumes a favourable backdrop in industrialised countries: per capita growth of 2.5 per cent a year, inflation of 3-4 per cent, and real interest rates of 3 per cent. It also assumes that policy reforms introduced by several heavily indebted countries will pay dividends and prompt positive financial transfers from industrialised countries.

In a "downside" scenario, however, the bank warns that if the industrialised world grows more slowly than expected, per capita growth in developing countries could be as low as 2.2 per cent.

Growth rates for low and middle-income economies
Real GDP per capita growth (% change)

Region or group	1965-89	Projection for 1990s Baseline	Projection for 1990s Downside
Low and middle-income economies	2.5	2.9	2.2
Region			
Sub-Saharan Africa	0.4	0.5	0.3
Excluding Nigeria	0.4	0.4	0.0
Asia			
East Asia	5.2	5.3	4.2
South Asia	1.8	2.6	2.1
Europe, Middle East and North Africa	2.2	1.8	1.4
Latin America and the Caribbean	1.8	2.0	1.3
Income group			
Low-income economies	2.9	3.5	2.9
Middle-income economies	2.5	2.6	1.9

Source: World Bank data

The baseline projection masks sharply divergent prospects in different parts of the developing world. Per capita growth of 5.3 per cent a year is expected in east Asia, with some of the top performers joining the ranks of industrialised countries by the year 2000. China and India are also expected to do well, growing at about 2.6 per cent a year in real terms, provided they introduce domestic reforms.

But per capita growth in Latin America and eastern Europe could be 2 per cent or less. In many of the poorest countries, the economic situation is likely to remain "precarious". Sub-Saharan Africa is expected to experience real per capita growth of only 0.5 per cent a year. This means that by the year 2000, average incomes in Africa will still be lower than they were in 1980.

The bank's past forecasting record suggests caution. Those for the 1980s, made between 1979 and 1982, were wildly optimistic, partly because the bank failed to anticipate the severity of the financing constraints that would be imposed by the debt crisis. In nearly all cases, even its "low-case" projections were too high.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout, other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	96.6	99.1	96.0	98.4	98.9
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.9	77.1
1987	105.6	100.7	104.0	97.5	64.9
1988	109.9	103.2	107.0	98.4	59.3
1989	115.2	108.5	110.0	99.1	61.0
1990	121.5	113.9	114.0	99.2	54.6
2nd qtr.1990	4.6	3.3	3.7	0.5	57.0
3rd qtr.1990	5.5	4.9	3.6	-0.5	53.8
4th qtr.1990	6.2	6.4	3.6	0.6	50.5
1st qtr.1991	5.3	3.4	3.6	2.4	
June 1990	4.7	3.1	3.6	0.3	n.a.
July	4.8	3.6	3.6	-0.6	n.a.
August	5.6	5.2	2.7	-0.5	n.a.
September	6.2	6.0	3.6	-0.3	n.a.
October	6.3	6.5	4.5	-1.2	n.a.
November	6.3	7.0	3.6	0.6	n.a.
December	6.1	5.7	3.6	2.6	n.a.
January 1991	5.7	4.0	4.5	1.9	n.a.
February	5.3	3.2	3.6	2.7	n.a.
March	4.9	2.9	2.7	2.6	n.a.
April	4.9	3.2	3.5	2.6	n.a.
May	5.0	3.4		2.9	n.a.

JAPAN	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	98.0	100.8	97.0	99.0	100.2
1985	100.0	100.0	100.0	100.0	100.0
1986	100.9	95.3	101.4	104.0	125.7
1987	101.3	92.5	103.1	101.0	126.7
1988	102.3	92.3	107.8	96.0	136.1
1989	105.1	94.2	114.0	96.0	132.7
1990	108.3	95.7	120.1	98.0	117.0
2nd qtr.1990	2.6	0.6	7.6	3.1	111.7
3rd qtr.1990	2.8	0.7	3.4	0.8	114.1
4th qtr.1990	3.5	2.4	5.7	0.0	122.7
1st qtr.1991	4.0	2.8	3.8		
June 1990	2.2	0.6	11.6	3.9	n.a.
July	2.6	0.5	3.9	0.0	n.a.
August	3.0	0.5	1.5	1.1	n.a.
September	2.8	1.1	4.5	1.3	n.a.
October	3.1	2.0	4.9	-0.9	n.a.
November	3.9	2.5	5.5	0.0	n.a.
December	3.7	2.5	6.0	0.8	n.a.
January 1991	4.3	2.8	1.9		n.a.
February	3.8	2.8	5.4		n.a.
March	3.7	2.6	4.1		n.a.
April	3.3	2.4	4.3		n.a.
May	3.1				n.a.

GERMANY	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	97.9	97.6	96.0	100.0	98.7
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3
1987	100.1	95.1	106.0	107.0	125.9
1988	101.4	96.2	113.0	107.0	126.4
1989	104.2	99.3	117.0	108.0	123.2
1990	107.0	101.0	123.0	110.0	127.7
2nd qtr.1990	2.3	1.5	n.a.	2.7	130.7
3rd qtr.1990	2.7	1.8	n.a.	1.9	125.7
4th qtr.1990	3.0	1.8	n.a.	1.6	126.1
1st qtr.1991	2.7	2.1	n.a.		
June 1990	2.3	1.6	-	3.7	n.a.
July	2.4	1.4	5.9	1.9	n.a.
August	2.8	1.9	-	0.9	n.a.
September	3.0	2.1	-	1.9	n.a.
October	3.3	2.0	5.9	1.9	n.a.
November	3.0	1.8	-	1.8	n.a.
December	2.8	1.5	-	2.8	n.a.
January 1991	2.8	2.3	5.8	0.9	n.a.
February	2.7	2.2	-	2.7	n.a.
March	2.5	1.8	-		n.a.
April	2.8	2.2			n.a.
May	3.0	2.2			n.a.

FRANCE	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	94.5	95.8	93.8	95.5	114.1
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	103.9	101.5	101.9
1987	105.9	97.8	107.2	103.8	102.1
1988	108.8	102.8	110.5	104.3	99.5
1989	112.6	106.4	114.7	106.5	98.2
1990	116.4	107.1	119.9		101.5
2nd qtr.1990	3.1	-2.3	n.a.	4.7	101.3
3rd qtr.1990	3.4	-1.4	n.a.		100.9
4th qtr.1990	3.6	0.7	n.a.		104.0
1st qtr.1991	3.4	0.7			
June 1990	3.0	n.a.	-	n.a.	n.a.
July	3.0	n.a.	4.9	n.a.	n.a.
August	3.5	n.a.	-	n.a.	n.a.
September	3.8	n.a.	-	n.a.	n.a.
October	3.9	n.a.	4.7	n.a.	n.a.
November	3.6	n.a.	-	n.a.	n.a.
December	3.4	n.a.	-	n.a.	n.a.
January 1991	3.5	n.a.		n.a.	n.a.
February	3.5	n.a.		n.a.	n.a.
March	3.2	n.a.		n.a.	n.a.
April	3.2	n.a.		n.a.	n.a.
May	3.2	n.a.		n.a.	n.a.

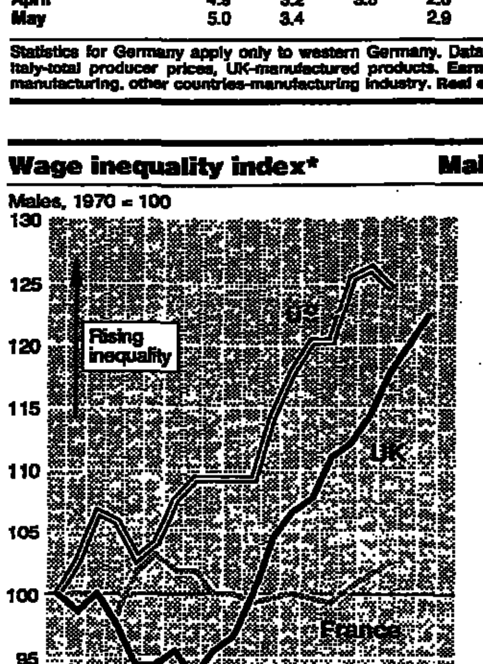
ITALY	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	92.1	92.8	89.9	91.8	98.8
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4
1987	111.0	103.1	111.6	105.6	102.5
1988	116.5	106.8	118.4	109.7	102.0
1989	124.2	113.1	125.6	112.2	109.6
1990	131.8	117.8	134.7		117.8
2nd qtr.1990	5.7	3.7	7.1	5.9	117.1
3rd qtr.1990	6.1	4.0	7.3		118.8
4th qtr.1990	6.3	3.9	7.2		119.5
1st qtr.1991	6.6				
June 1990	5.6	3.5	7.2	n.a.	n.a.
July	5.7	3.4	7.4	n.a.	n.a.
August	6.3	4.2	7.4	n.a.	n.a.
September	6.3	4.4	7.2	n.a.	n.a.
October	6.2	4.2	7.2	n.a.	n.a.
November	6.5	4.0	7.4	n.a.	n.a.
December	6.3	3.6	7.1	n.a.	n.a.
January 1991	6.5		7.8	n.a.	n.a.
February	6.7			n.a.	n.a.
March	6.6			n.a.	n.a.
April	6.7			n.a.	n.a.
May	6.8			n.a.	n.a.

UNITED KINGDOM	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1984	94.3	95.0	91.7	94.3	97.5
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.3	107.7	104.5	92.9
1987	107.7	108.3	116.3	105.9	90.6
1988	113.0	113.2	126.2	108.9	97.0
1989	121.8	119.0	137.2	113.5	95.7
1990	133.3	126.0	150.1	123.7	98.4
2nd qtr.1990	9.7	6.3	9.2	7.1	93.2
3rd qtr.1990	10.4	6.0	9.7	9.3	102.8
4th qtr.1990	10.0	5.9	9.6	11.2	103.7
1st qtr.1991	8.7	6.3	8.9	10.9	
1990 June	9.8	6.3	9.8	7.5	n.a.
July	9.8	6.0	9.5	8.6	n.a.
August	10.6	6.0	9.7	9.4	n.a.
September	10.9	5.8	9.8	9.9	n.a.
October	10.9	5.9	9.2	10.3	n.a.
November	9.7	5.9	9.6	11.7	n.a.
December	9.3	5.9	9.9	11.6	n.a.
1991 January	9.0	6.3	9.5	10.7	n.a.
February	8.9	6.3	9.1	11.6	n.a.
March	8.2	6.3	8.0	10.5	n.a.
April	6.4	6.2	9.2	12.1	n.a.
May	5.8	6.0			n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US-finished goods, Japan-manufactured goods, Germany-industrial products, France-intermediate goods, Italy-total producer prices, UK-manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany-mining and manufacturing, other countries-manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

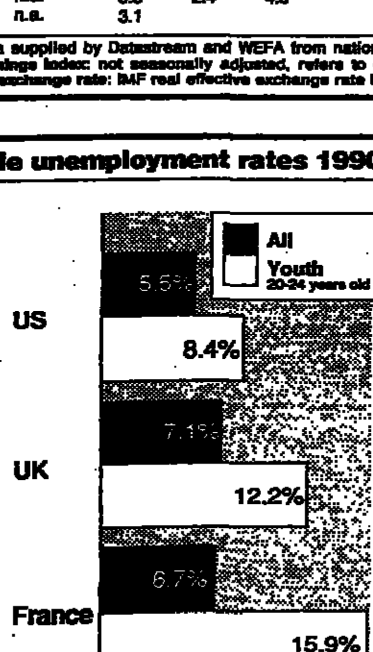
Wage inequality index*

Males, 1970 = 100



*Index is Log difference between the average weekly wage of the top and bottom decile of adult males wage-earners
Source: Katz and Loveman (1990)

Male unemployment rates 1990



Source: OECD, Standardised unemployment rates

Wage inequality and the rising demand for skills

THE RELATIVE wages of low-paid workers have fallen sharply in the US and the UK over the past two decades. But in France the difference between earnings of the lowest and highest paid workers has narrowed since the mid-1970s.

These trends are illustrated in the left-hand chart; the wage inequality index shows changes in the difference between average wages of the top and bottom 10 per cent of adult males (with 1970 as a base year). The differential itself was wider in France than in the UK in 1970, and remains so today, while wage inequality remains highest in the US.

The decline of traditional manufacturing industries in the US and the UK, partly because of low-cost competition from developing countries, is the main reason for falling demand for unskilled labour. In the UK, employment of unskilled manual workers fell 9.7 per cent between 1979 and 1989; the employment of partly skilled (and more highly paid) manual workers fell even faster – by 13.6 per cent over the same period.

Yet wage inequality has not risen in France over the past two decades. Did France escape the shift in industrial structure away from traditional manufacturing industry?

Not so, according to a recent comparison of the changing structure of wages in the US, France and the UK conducted by Mr Lawrence Katz and Mr Gary Loveman of Harvard University.

They argue that similar falls in the demand for unskilled labour occurred in all three countries. Between 1970 and 1987 the share of industrial employment in total employment fell by 7.3 percentage points in the US, by 8.4 percentage points in France and by 14.9 percentage points in the UK. Yet falling demand for unskilled labour had different effects on wages and unemployment because of cross-country differences in labour markets.

The US and UK have seen similar increases in overall wage inequality over the past two decades. The US rise was spread evenly over the entire period while in Britain the rise was concentrated in the 1980s, since the incomes policies of the 1970s reduced wage inequality.

In the US relative wages rose for non-manual, educated and experienced workers. In the UK the relative earnings of non-manual and educated workers also rose; but the relative fall in unskilled wages was greater for men aged over 40 than for younger men.

But there was one important difference between the US and the UK: the real wages of the lowest decile of US adult males fell by 10 per cent between 1979 and 1987, while they rose by 10 per cent in the UK.

In France, earnings inequality fell from the mid-1970s to the mid-1980s, though it has begun to rise again in recent years. Young and unskilled workers in France did not experience a decline in their relative wages, while real wages also rose, particularly for manual workers.

Katz and Loveman argue that the French statutory minimum wage, and the practice of negotiating industry-wide minimum wage levels, have prevented a fall in wages of the unskilled and young. The level of the minimum wage has remained above 60 per cent of the mean non-agricultural wage over the past two decades and has risen relative to unskilled earnings.

They conclude that the rise in UK and French unemployment, relative to the US, has been caused by an increase in real wages in the UK and France, something that has not occurred in the US.

In France, in particular, "the labour market adjusted mainly through quantities rather than prices; and inequality widened between the employed and the unemployed". The failure of relative wages of the unskilled to fall caused the employment prospects for less-skilled young people to deteriorate sharply in the 1980s. Consequently, youth unemployment in France was higher in 1990 than in both the UK and the US.

Edward Balls

L.F. Katz and G.W. Loveman (1990): An international comparison of changes in the structure of wages: France, the United Kingdom and the United States. (Unpublished).

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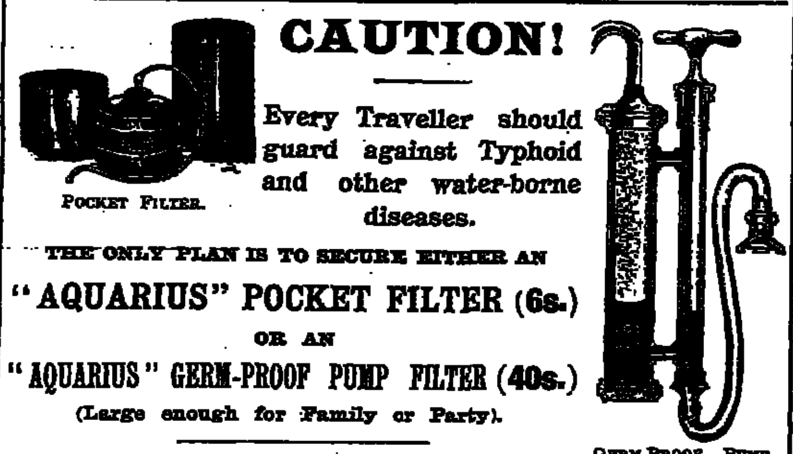

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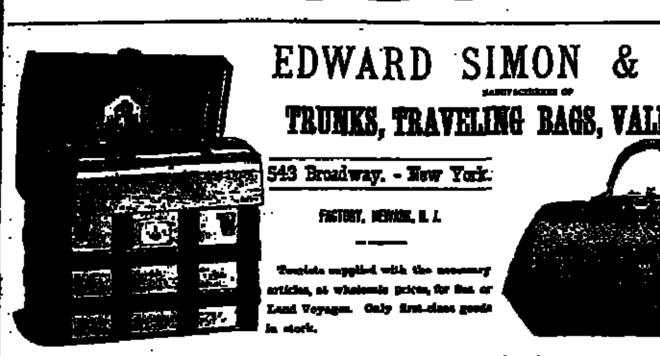


Travel in the late nineteenth century could be a desperate business.

In the American west, stagecoach passengers carrying gold or currency notes shrank with dread whenever a rider, scarfed against the dust of the trail, hove into view.

Their guards, the men of Wells, Fargo Express, practised shooting skills by – if legend be true – tossing silver dollars in the air and plugging them with their six-guns.

Things were no better for travellers in other parts of the still largely unexplored planet.

A revolver was an essential accoutrement for a gentleman.

Those travelling in unreliable regions needed all the help that the 'Excursionist', Thomas Cook's excellent travel gazette, could offer.

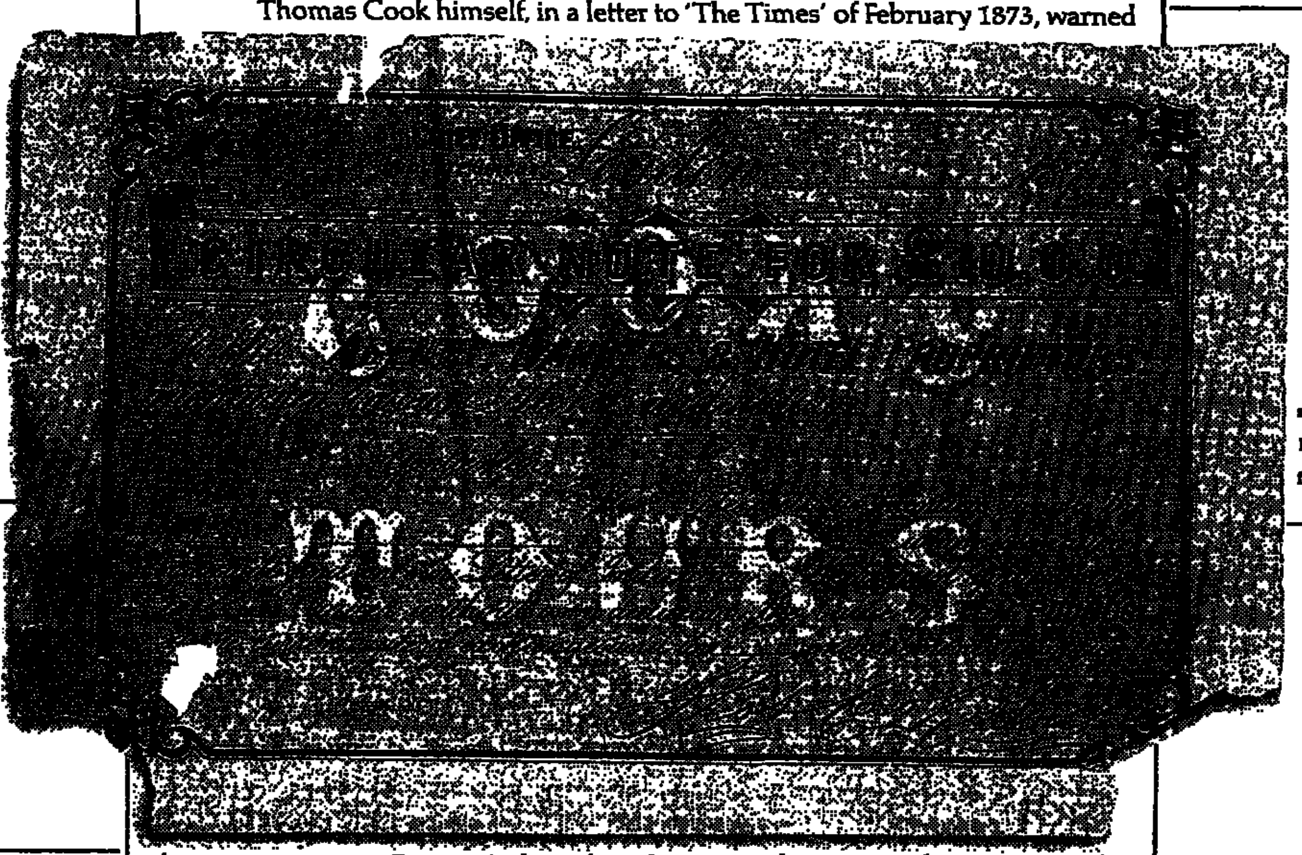
Its pages, besides chronicling with an enthusiasm that would be wearying were it not so guileless, the exact steamship fares from London to Port Said (via Alexandria), were filled with patent medicines, powders efficacious against the flea and the 'roach, equipages the likes of which have never been seen before or since.

Thus the folding pocket hammock, the gentlemen's 'Congo' medical kit.

The effects of brainfag were to be relieved by consumption of Coca Tonic Wine, guaranteed to be made from pure Peruvian coca leaves.

It was essential to prepare well one's defences against serpents, both animal and human.

Thomas Cook himself, in a letter to 'The Times' of February 1873, warned



the unwary against Benares' 'shameless dancing girls, inviting the passers in the narrow streets to their dens'.

In order that his clients might not find themselves robbed by unscrupulous foreigners, he hit upon the notion that instead of carrying cash, they should carry his company's promissory or 'circular' note.

These 'checks', as Cook called them in the 'Excursionist' in 1874, could be exchanged abroad for the corresponding amount of francs, lire, dollars, rupees, drachmae, paras, qirsh, sultani, piastres, thalers, kreuzers, ghrush, leptas or stotinki.

Cook arranged for his notes to be accepted at hotels all over the world, in the unlikeliest places.

Thus the traveller in India wishing to view the extraordinary jutting mountain peak known as 'Duke's Nose' (a relic of Wellington's forays against the Marathas) must first brave an insanely dangerous road to reach the remote hamlet of Khandala.

But here, atop a precipice haunted by small, white-rumped monkeys, was the Hotel Glendale, where, in exchange for one of Mr Cook's 'circular' notes, one was assured of a clean, comfortable bed, English tea and toasted muffins at four. As, indeed, one still is today.

How could it be otherwise? Thomas Cook's is a service that is dedicated to the needs of the traveller. Its heritage is travel. It continues to be founded in travel.

In Thomas Cook's 1600 branches and representative offices around the world travellers will find help with tickets, hotels, foreign currency and international remittances.

But they will not find a 'circular' note. These exotic drafts were eventually replaced by the travellers cheque, an invention we sadly cannot claim as our own.

In 1891, seventeen years after Thomas Cook's first 'circular' note, American Express introduced the modern, double-signed travellers cheque.

From that day to this, as students of the higher mathematics will confirm, precisely one hundred years have elapsed.

It is an anniversary year both companies can celebrate, for Thomas Cook has now reached the grand old age of one hundred and fifty.

Congratulations to our old friends on their centenary. Neither can the occasion be permitted to pass without warm thanks to our friends at MasterCard International and euro travellers cheque International, who have played such a grand part in our success.

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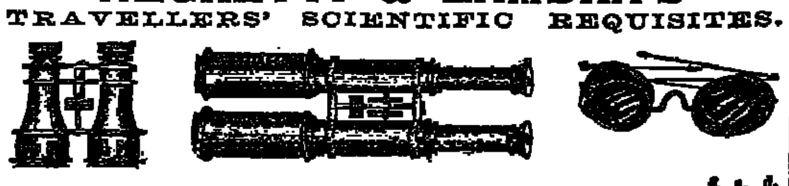

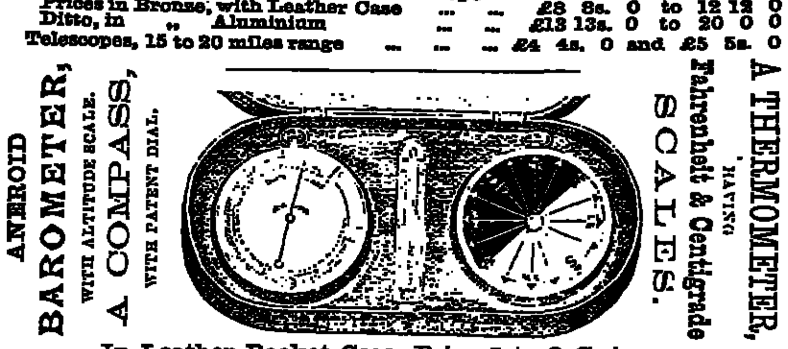

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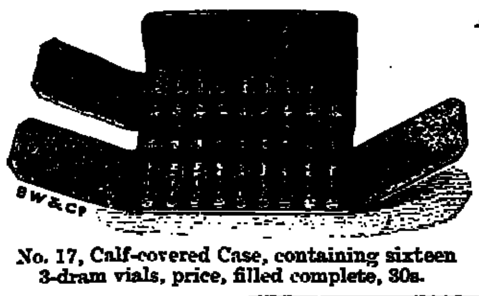

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THE CRISIS AT BCCI

ABU DHABI

Silence surrounds sheikh's visit to Europe

SHEIKH Zayed bin Sultan al-Nahyan, President of the United Arab Emirates and ruler of Abu Dhabi, flew to Europe at the weekend on a "private visit". It was apparently connected with the international seizure of the assets of the Abu Dhabi-owned Bank of Credit and Commerce International. He flew to Switzerland in his own Boeing 747 on Saturday but his intentions were unknown.

Officials in London said no plans had been laid for a meeting at the Bank of England. Neither the Abu Dhabi Investment Authority (Adia), which manages the emirate's 77 per cent stake in BCCI, nor the UAE central bank commented yesterday about BCCI, in spite of a flurry of high-level meetings throughout the day.

BCCI branches remained closed, although some disconsolate customers outside the main branch on the Corniche – next to Adia's headquarters – said they were told that they might be able to withdraw money today.

It is assumed in Abu Dhabi that the ruling al-Nahyan family will compensate UAE nationals, but not necessarily foreigners, for any losses.

"I have worked here for 13 years," said a depressed Iraqi-born petroleum engineer yesterday. "My wife and I had our life savings at BCCI." Between them they had deposited more than $100,000 (£625 000) with BCCI in the UK. They were planning to transfer the money to Grindlays Bank of Bangladesh when the term of their interest-bearing deposit expired in two days.

Abu Dhabi and the UAE federal government have announced that BCC (Emirates), BCCI's local affiliate, is unaffected by the freezing of BCCI assets, although the two institutions are closely connected.

Signs of panic were absent from the local bank's 17 branches, and bank officials said withdrawals were only slightly higher than usual. They were, however, concerned about demands from correspondent banks which they expected to arrive from the start of the western business week today.

"It has no financial problems and it will continue to serve its valued depositors, customers and clients and grow stronger in the future," said Sheikh Nahyan bin Mubarak al-Nahyan, the BCC(E) chairman.

"Depositors should not therefore confuse its affairs with news reports concerning the BCCI Group which have no bearing on its operations." Like BCC Hong Kong, BCC(E) is affiliated to BCCI Holdings, the Luxembourg parent company, rather than to BCCI SA or BCCI (Overseas), which were the targets of the Bank of England and its allies. It is the UAE's sixth-largest bank.

BCCI staff were shocked by the sudden nature of the action announced in London on Friday. They blamed the debacle on the bank's over-rapid growth and on trade finance and loans to individuals in the Gulf that went bad.

Victor Mallet
in Abu Dhabi

PRICE WATERHOUSE

Auditor faces scrutiny over its actions

PRICE WATERHOUSE'S role as auditor to BCCI will come in for a good deal of scrutiny in the months ahead.

PW has signed three sets of accounts since it took on the BCCI audit in early 1988. Nowhere in the accounts for each of the three years 1987, 1988 and 1989, is there any reference to the fraud in the bank's lending and treasury operations identified last week by Mr Robin Leigh-Pemberton, governor of the Bank of England.

More generally, there is no explicit indication that anything serious was afoot, or that the auditor's suspicions were aroused. What "qualifications" – auditors' formal reservations about the accounts – PW made in the three years did not relate to the central issues as spelt out last week.

The accounts for 1987 were given a clean bill of health – the terse statement from PW said that the accounts were "true and fair". The accounts for 1988 were qualified, but only in reference to legal proceedings in Tampa, Florida, which Mr Leigh-Pemberton has indicated had no bearing on the decision to close down the bank. Otherwise the accounts were "true and fair".

The accounts for 1989 were again declared "true and fair" although the reader was referred to a long, innocuous-looking note in which the company spelt out the basis on which it had prepared its accounts.

This reference, by which Mr Ian Brindle, the senior partner at PW, sets much store, is not technically a qualification and again the accounts were said to be "true and fair".

"We weren't as dumb as we may look," Mr Brindle said yesterday. In the firm's defence he said that PW had been aware of irregularities at BCCI from the start and had been in contact with Bank of England and other regulators from before it took on the audit in 1988.

That contact had been maintained on a "prompt, regular and full" basis, and all sensitive audit decisions in the three years were taken with the knowledge of the regulators.

Contact with the regulators intensified earlier this year when PW was commissioned by the Bank under the Banking Act to conduct an investigation into BCCI's affairs. The information yielded by that enquiry ultimately led to BCCI's closure last week.

Mr Brindle said that a team of senior accountants had been working for years on the unravelling of the fraud. "It was like doing a huge jig-saw puzzle where don't have the picture, just the pieces sitting there, thousands of pieces," he explained.

"Over time you get an idea of what the picture looks like, but it gets ever more difficult. You are dealing with deception and manipulation of information both inside and outside the company. Wherever you turn, whatever you are looking at, all is unreal. You are living in a world of unreality."

Mr Brindle argues that had investors and other users of the accounts paid closer attention to note 1 in the 1989 accounts, they would have become aware that BCCI was undergoing serious problems.

The bulk of the note deals with mundane accounting matters but it also indicates that the Abu Dhabi government had taken a 77 per cent stake in the holding company and had given BCCI undertakings "to maintain the group's capital base whilst the reorganisation and restructuring necessary for its continued development is undertaken".

Mr Brindle says that it ought to have been obvious that the government of Abu Dhabi would not have taken such steps were something not seriously wrong at BCCI. "If people don't find that interesting, it'll take an awful lot to get them excited," Mr Brindle said.

The warning is far from explicit, though, as it appears

> **'Of course we won't come out of this smelling like roses . . . we will get our fair share of unfair criticism'**
> Ian Brindle

only as part of largely technical note towards the back of a set of accounts.

Mr Brindle argues that a less coded, more explicit qualification of the accounts would have precipitated a run on the bank and therefore its collapse in a disorderly manner. He believes that a better approach by far is to work closely with the regulators.

Any assessment of events will be complicated by uncertainty in respect of auditors' duties to discover and report fraud.

Auditors have no legal obligation to do either and under the Banking Act 1987 (which regulates the audit of banks) auditors have a right – not a duty – to contact regulators if they find fraud. This is very much at odds with public perceptions about the purpose of auditors.

The sequence of events will no doubt be anatomised in great detail in the months ahead. Mr Brindle, for one, is resigned to a good deal of criticism:

"Of course we won't come out of this smelling like roses," he said. "Everyone involved will be criticised and we will get our fair share of unfair criticism. Such is life."

David Waller

DEPOSIT PROTECTION FUND

Bank of England moves to speed up compensation

DEPOSITORS may have to wait two or three months before they receive any compensation from the Deposit Protection Fund, banking officials are warning. However, the Bank of England says it intends to put all its efforts into speeding matters along.

The Bank yesterday repeated that no claim can be processed until Touche Ross, the provisional liquidator, has obtained a winding-up order.

BCCI's loans and mortgages will be taken over by the liquidator but they will continue as before and interests payments remain unchanged.

The Deposit Protection Fund provides for compensation equal to 75 per cent of a deposit, but with a payout to any one depositor limited to a maximum of £15,000.

Some depositors, however, will not be entitled to compensation. They include BCCI shareholders or members of the bank's management, other UK-authorised banks, secured deposits or deposits with an original term exceeding five years, deposits securing overdrafts or loans and deposits payable in currencies other than sterling.

The Bank also said deposits placed with BCCI outside the UK would be ineligible for compensation from the fund, although they might qualify from protection schemes operated in other countries.

The Bank has asked other banks to deal sympathetically with former customers of BCCI seeking to open new accounts and obtain loans. BCCI depositors who can prove they have a claim against the fund may be able to use that to secure a loan from other banks.

Touche Ross announced the setting up of a depositors' advice line, available from this morning, to assist small business customers. The telephone number is 071-480 7766.

The receivers will compile a list of account holders and deposits and then write to sterling depositors, inviting them to submit formal claims for compensation. Written claims can be submitted immediately, however, by writing to Mr Christopher Morris, Claims, BCCI, 100 Leadenhall Street, London EC3A 3AD.

Touche Ross also said payments made by the fund would represent a claim on any assets that might later be available to the liquidators for repaying depositors. Reimbursement of the fund would then take precedence over claims of depositors.

The Bank said yesterday that depositors could contact the Deposit Protection Board for clarification of how the freezing of BCCI deposits affected them.

Depositors can contact the Deposit Protection Board at the Bank of England. Telephone: 071-601 3368/5394/3749/6204.

David Lascelles
and Michael Cassell

HONG KONG

Far East branches will keep trading

BANK of Credit and Commerce Hong Kong (BCCHK), a 99 per cent-owned subsidiary of BCCI Holdings SA, will remain open after the Hong Kong banking commission cleared the bank of involvement with the troubles elsewhere in the group.

BCCHK's 30 branches were also open on Saturday and saw "more or less normal" business, according to a bank spokesman. The bank's business in Hong Kong is almost all corporate rather than retail and concentrated in trade finance.

The Banking Commission said it allowed the bank to continue trading because it was not expected to be affected by the turmoil in the BCC group and there is no evidence of suspected fraud. However, the commission has appointed Mr Colin Selby, head of internal audit, Hongkong Bank, and Mr Albert Cheok, deputy banking commissioner, as advisers to BCCHK.

BCCHK last week announced an attributable loss of HK$431m after making loan-loss provisions of HK$581m. The bank now has accumulated losses of HK$960m, compared with paid-up share capital of HK$737m at the end of last year.

● BCCI's Brazilian operation, whose business is mainly short-term trade finance rather than deposit-taking, is also to continue trading.

Angus Foster
in Hong Kong

SMALL BUSINESSES

Asian savers bear the brunt

SMALL businesses, many of them in the ethnic communities, gave warnings yesterday they might face collapse after the freezing of accounts with BCCI.

Mr Hanwantbir Chadha, a clothing importer and exporter on London's Whitechapel Road and the president of the Whitechapel Traders' Association, said he estimated that 60 per cent of East London traders had accounts with the bank.

"The garment trade was already in difficulties because of the recession," he said, "but the Bank of England may have put the final nail in the coffin. This is a very big tragedy."

Businesses that were in credit with BCCI, he said, might be able to open accounts with other banks, although the delay involved might cause serious difficulties. Those which had overdraft facilities with BCCI and could not find another banker might face closure.

He said: "The Asian community helps each other out, but we might not be able to help everybody. People need money to pay wages and their suppliers."

Mr Chadha said he had received around 20 frantic phone calls on Saturday from friends and business contacts affected by BCCI's shutdown.

Mr Chadha himself had a business account with BCCI for 15 years and had a five-figure sum in credit when trading was suspended on Friday. The first he heard of the bank's closure was at 2.45pm on Friday when a small manufacturer returned a cheque for £2,500, saying he had been unable to cash it.

Colin Beere
Mr Chadha looking over his BCCI statements yesterday

Brandishing his BCCI statements and receipts from yesterday's trading, he said he would be attempting to open an account with National Westminster Bank today.

"I have never had a cheque bounce before. What will other people think when they cannot get the money from cheques I have written to them? It is bad for my name.

"If the Bank of England wants to fight fraud, all of us in this community will help them. But why do they have to punish the small businesses? Why should innocent people lose their own money?"

Elsewhere on Whitechapel Road, a trader told of a friend with a property and catering business, including a restaurant in London's West End, who had deposits of more than £200,000 with BCCI. With much of that sum – which represents security on loans on properties – now wiped out, he feared his business would collapse.

Many of BCCI's customers were from the Middle East and the Indian subcontinent, and had been attracted to the bank because they felt it understood their needs. Some immigrants arriving in the UK in the 1970s and 1980s had banked with BCCI in their home countries.

For the Moslem community, trying to return to normality after the upheavals of the Gulf war, the shutdown of BCCI is a severe blow.

"There's a real panic going round," said Iqbal Wahhab, a PR consultant and journalist. "A lot of Asians have substantial holdings with BCCI, and they are in a complete state of despair."

Mr Wahhab said his uncle, a diplomat, had more than £20,000 with BCCI. At the Tooting school where Mr Wahhab's mother works, one of the children's parents wanted to return to Pakistan to see her dying father. She could not now pay for her ticket as all her savings were with BCCI.

Mr Sher Azam, an executive of the Bradford Council of Mosques, said he had received calls throughout Saturday from worried Moslems with both business and personal accounts with BCCI. He feared more shockwaves among the community today when the bank failed to open.

Neil Buckley

PAKISTAN

Limit is placed on withdrawals

BCCI'S THREE branches in Pakistan continued to trade over the weekend after central bankers ruled that the bank traded under local law and was therefore not affected by the Bank of England's decision.

Many clients rushed to withdraw the money from their accounts after news spread of the Bank of England's move. The central bank intervened to prevent a run on BBCI, prohibiting depositors from withdrawing amounts in excess of Rs100,000 (£2,500) from local and foreign-currency accounts.

Mr Sartaj Aziz, Pakistan's finance minister, said last night after meeting senior BCCI officials in Islamabad: "These branches operate under our laws. We want to protect the interests of our depositors too."

Earlier, government officials said privately that closure of the bank could damage the country's investment climate at a time when the government wants to encourage large-scale privatisation.

Senior BCCI officials said last night that a total of Rs600m had been withdrawn during the past two days out of total deposits of Rs10.4bn in BCCI's Pakistani branches.

Farhan Bokhari
in Karachi

UK NEWS – EMPLOYMENT

Doubts cast on NUM merger plan

By John Gapper, Labour Editor

DOUBTS about the long-awaited merger between the National Union of Mineworkers and the Transport and General Workers Union emerged yesterday, when TGWU leaders said they also wanted to amalgamate with the rival Union of Democratic Mineworkers.

Mr Bill Morris, TGWU deputy general secretary, said the union welcomed any merger with industrial logic. An NUM amalgamation should be "just the first step towards a reunification of the mining industry, which includes any union in that industry".

Mr Arthur Scargill, NUM president, said there was "no chance" of the NUM taking part in merger discussions with the UDM and TGWU. He made clear that he wanted to remain a national officer in any merger between the TGWU and the NUM.

Officers in both unions believe a merger might be followed either by an attempt to recruit UDM members in Nottinghamshire or by a direct approach. Mr Scargill's presence in a merged union might remain an obstacle to either tactic.

The comments came as both unions gathered in Blackpool for their conferences. The TGWU biennial conference will hear leftwing calls for policy changes on collective bargaining and union law that would put the union at odds with the Labour party.

The TGWU conference will be watched closely by both Labour and the government. Mr Neil Kinnock, the Labour leader, is to speak at the conference on Wednesday and Mr Michael Howard, employment secretary, is planning an attack on union links with Labour.

Mr Howard is expected to publish the results of an opinion poll showing public hostility to Labour's policy on union law and disquiet about the party's union links.

Mr Ron Todd, TGWU general secretary, yesterday acknowledged that the party would not emphasise its union links in an election campaign. Unions would not "be in a position where we are a prime force with the Labour party" in an election campaign.

The conference will hear leftwing calls for the repeal of all Conservative union legislation, and for opposition to Labour's proposed National Economic Assessment (NEA) on the grounds that it would be a disguised form of incomes policy.

Mr Todd said that some people were concerned about the NEA – under which unions and employers would meet the government annually to discuss the economy – but the union would "turn its face away" if that developed into an incomes policy.

> TRADE union leaders, including Mr Norman Willis, general secretary of the Trades Union Congress, will today be given a rare meeting with the prime minister to press for job creation measures to tackle unemployment.
>
> Mr Willis and Mr Rodney Bickerstaffe, general secretary of the Nupe public-sector union, will be at Downing Street as part of a delegation from the trade union advisory committee to the Organisation for Economic Co-operation and Development.
>
> The meeting takes place ahead of next week's London summit of seven leading industrial nations. Trade union delegations to the leader of the host nation of such summits are normal.
>
> The last time a British prime minister met a formal delegation from the UK Trades Union Congress was in 1985 to discuss the miners' strike.

Tribunal award for pregnant worker

By Michael Smith, Labour Correspondent

AN INDUSTRIAL tribunal has ruled that an employer discriminated against a pregnant woman in refusing her promotion.

Mrs Morag O'Mara was backed by the Equal Opportunities Commission in her case against the Scottish Agricultural College. The EOC welcomed the decision, saying successful claims of sex discrimination in promotion cases were rare.

After its unanimous decision the tribunal awarded Ms O'Mara £2,921 and indicated that the case could be reopened if the college failed to take up its recommendation that she be promoted within a year.

Mrs O'Mara, one of 29 grade three agricultural advisers, was not selected for a grade two post even though, according to the EOC, she had higher qualifications and longer service than her rivals.

● Job evaluation procedures used to grade occupations and establish pay scales may result in unfair and biased assessments that reflect traditional job stereotypes and discriminate against women, psychologists warn today.

A British Psychological Society report says job evaluation is a useful tool but occupations more usually done by women tend to be ascribed low status.

Printing federation withdraws from youth training scheme

By Lisa Wood, Labour Staff

THE BRITISH Printing Industries Federation is to cease being a managing agent for the government's Youth Training scheme because of difficulties in negotiating with Training and Enterprise Councils.

The federation is the first industry-wide organisation to announce a withdrawal from the scheme because of disparate negotiations. It emerged last week that several large companies, including Midland Bank and Mothercare, had pulled out for similar reasons.

The companies and the federation cite the burden of negotiating locally with the 82 Tecs in England and Wales and 22 Local Enterprise Companies, their equivalent in Scotland.

Before the Tecs and Lecs were set up this year, large companies and managing agents negotiated on YT numbers and allowances with one organisation: the National Providers Unit.

In a letter to the Financial Times, published today, Mr Colin Stanley, BPIF director general, says: "We now face the complication and overhead burden of negotiating with 82 Tecs at different rates, in different manners and different ways for the same product."

As a training managing agent the BPIF negotiated a standard rate for each trainee and arranged off-the-job training to set standards. The rate was about £30 a trainee last year, when 500 trainees were taken on. According to the BPIF allowances paid by Tecs vary from £10 to £42 per trainee. The number of trainees has fallen to 200 this year.

Tecs are concerned at the loss of YT places with national providers of training such as the federation. Some have argued that in the case of the printing industry most YT trainees are taken on to staff – rather than being work experience trainees – and companies should be willing to shoulder more of the costs of training.

Separately, William Morrison, the supermarkets group, has written to the government urging the reinstatement of central arrangements for providers of training such as itself which are located in several Tec areas.

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Doctor warns on passive smoking danger

By Diane Summers, Labour Staff

A CALL for tobacco smoke in the workplace to be declared an environmental hazard to employees, in the same category as asbestos, is to be made by a leading member of the Royal College of Physicians.

Dr Ashley Woodcock, secretary of the Royal College's working party on tobacco and young people, is due to tell an Industrial Society conference on workplace smoking later this month that companies should provide "bolt holes" for smokers – otherwise they face being sued by non-smoking employees who contract cancer through passive smoking.

According to Dr Woodcock, exposure to environmental tobacco smoke is a 100 times as dangerous to workers as 20 years' exposure to asbestos fibres in buildings, "yet we spend a fortune on getting asbestos out of buildings".

The UK should follow the example of the US and classify environmental tobacco smoke with asbestos and other known carcinogens, he adds.

Smokers also cost more to employ than non-smokers, Dr Woodcock points out. "Studies in the US have shown that it costs companies $1,000 (£625) a year more to employ a smoker than a non-smoker due to increased sickness absence. Smokers also kill 300 non-smokers every year with lung cancer caused by passive smoking.

"Unless companies provide 'bolt holes' for smokers, sooner or later they will be sued by a non-smoking employee who has contracted cancer through passive smoking . . . smokers are literally burning up their employers' profits," he said.

Rightwing doubt over union laws

By John Gapper, Labour Editor

ONE OF the first rightwing suggestions that the government has been too zealous in reforming the unions has been made in a book published by the Adam Smith Institute.

The institute has been one of the firmest supporters of the union reforms since 1979, but the book echoes some traditional leftwing criticism that the reform programme went too far in the acts of the late 1980s.

Taming the Trade Unions, by economics lecturer Mr Charles Hanson, criticises the 1988 and 1990 Employment Acts.

The author argues that the government has "overshot the mark" by establishing the commissioner for trade union rights, and criticises measures stopping unions from disciplining their own members.

Mr Hanson, who works at Newcastle upon Tyne University, is in favour of the government's union reforms but says the cost of the commissioner, who backs members' complaints against their own unions, cannot be justified.

He also criticises the 1988 act for preventing unions from disciplining members who refuse to take part in industrial action called after a workforce ballot – the so-called "scabs' charter".

Mr Hanson says it is based on a misunderstanding of the way in which the ending of the closed shop transforms the relationship between unions and their members by ensuring that membership is voluntary.

Taming the Trade Unions. Macmillan in association with the Adam Smith Institute. £40 hardback, £14.99 paperback.

No reprieve expected in armed forces cuts

By David White, Defence Correspondent

ANY HOPES among the armed forces and their suppliers that the government might alter its defence cuts plans in the light of the Gulf war are expected to be dashed when the Ministry of Defence publishes its annual white paper tomorrow.

The white paper, delayed by three months because of the war, comes in the final stages of work on detailed measures to carry out the government's Options for Change proposals, outlined a year ago.

It will include the results of studies aimed at drawing lessons from the conflict for Britain's future defence provisions. Even so, although some weapons programmes have received stronger backing because of experience in the Gulf, no significant changes are expected.

In fact, pressure on funds for defence has tightened further, since not all the costs associated with the Gulf campaign are covered by extra financing arrangements agreed with the Treasury.

Spending on equipment, originally set at £8.3bn for the present financial year, is likely to decline in real terms. The drop will be much less sharp than the cuts in personnel planned over the next three years, amounting to 21 per cent for the armed forces and 20 per cent for civilian staff.

The white paper will set out the planned shape and role of the UK's armed forces over the next decade but will not spell out all the details of where the cuts will be made.

A reduction of about a quarter in army strength to 116,000, including recruits in training, has already been announced. That is 4,000 fewer than the level announced last year. The air force and the navy and marines are also expected to see their future staffing levels fall below the targets indicated in July last year, of 75,000 and 60,000 respectively.

The reductions will also involve the loss of 20,000 civilian jobs in the UK and 15,000 overseas, including locally engaged foreign staff, over the next three years, out of more than 170,000 currently working for the MoD.

However there is no word yet on a number of anxiously awaited decisions, such as the future of navy bases in Scotland and southern England. The ministry hopes to have all the main elements of the Options for Change review settled by early autumn.

The white paper will include details of the ministry's New Management Strategy, in place since April, which delegates financial responsibility to "budget holders" throughout the organisation.

Power chairman gets 84% pay rise

By Robert Peston

MR JOHN HARRIS, chairman of East Midlands Electricity, earned £115,000 in the year that ended on March 31. That is 84 per cent more than the annual salary he had been paid when the company was privatised last November.

East Midlands, based in Nottingham, will be the first regional electricity company to disclose its directors' pay, when it publishes it annual report this week. Part of Mr Harris's pay rise is a bonus.

The company is also likely to confirm that his annual rate of pay has risen to about £180,000. The remuneration of all 12 regional companies' chairmen is apparently in the range of £150,000 to £200,000. Most were earning between £50,000 and £70,000 in the year before privatisation.

News of the pay rises may revive the political storm that erupted when other privatised utilities – British Telecom, British Gas, the water companies and the electricity generators – all disclosed big pay rises for their directors.

The electricity companies are also putting in place generous share option schemes for their directors. Junior directors are likely to receive options giving each of them the right to buy more than 50,000 shares. Chairmen and chief executives may receive options to purchase about 200,000 shares each.

Mr Harris is believed to have been granted an option to buy about 200,000 at a price of less than 320p. At the present share price, there is a notional profit on that option of more than £30,000. However, the option cannot be exercised for three years.

The regional companies have been secretive about their directors' pay and are sensitive to criticism. They argue that the pay rises have been recommended by independent remuneration consultants.

George Squair, chairman of Seeboard, the south-eastern electricity company, refused to disclose his pay level, but he said it had been approved by a remuneration committee whose first responsibility was to serve shareholders' interests, not those of the directors.

The regional companies' directors privately blame the government for the row. They attack it for preventing them from increasing their pay before privatisation, which would have prevented the need for such huge increases now.

The regional electricity companies have all announced results showing their profits as far higher than forecast in their flotation prospectuses.

British Midland renews EC fight

BRITISH MIDLAND Airways (BMA), the second-tier UK airline expanding into Europe, will renew its objections to any new shareholding agreement between British Airways and Sabena, the Belgian national flag carrier, Paul Betts writes.

Sir Michael Bishop, BMA's chairman, said he planned to ask the European Commission to scrutinise any new deal between BA and Sabena.

He said he was particularly worried by the competitive implications of seeing the London Heathrow-Brussels route, one of the busiest in Europe, served by two airlines with joint ownership.

Sabena confirmed last week that it was hoping to clinch an agreement with BA by the end of this month. That would involve BA's investing about £100m in the Belgian carrier in return for a 25 per cent stake in Sabena.

BMA operates services from Heathrow to Paris, Dublin and Amsterdam. Sir Michael said the airline intended to launch services on three new routes in Europe during the next 18 months as part of a strategy of progressively building up a sizeable European network by 1995.

Apart from the proposed BA-Sabena partnership, BMA is locked in a fierce battle with Aer Lingus, the Irish national carrier, which is expected to reach a climax at the end of this month.

BMA complained to the EC after Aer Lingus cut off a so-called interlining agreement allowing its passengers to exchange tickets with BMA on the Heathrow-Dublin route. The EC delivered last week a statement of objection to Aer Lingus and a formal hearing on the issue is due on July 30.

If the EC were to rule in favour of BMA, Aer Lingus might be liable to a fine of up to 10 per cent of its annual turnover.

PM plans national environment agency

By John Hunt, Environment Correspondent

THE ESTABLISHMENT of a national authority covering a broad area of environmental protection is expected to be announced by Mr John Major, the prime minister, today.

For a long time the government has resisted the idea as impracticable.

An option proposed to Mr Major, who makes his first big environmental speech today, is for an umbrella organisation to oversee the pollution control work of the National Rivers Authority and Her Majesty's Inspectorate of Pollution (HMIP).

The proposal for the new body, put forward by a Tory working party on environmental ideas for the manifesto, would be put into practice in the medium term. The umbrella organisation could be developed into a fully fledged environmental protection agency later.

As the battle for the "green" vote grows fiercer with the approach of a general election, Mr Major is likely to use his speech to reassert the Tories' commitment to policies over a wide range of environmental issues, including moves to agree an international convention to combat global warming.

Labour has already proposed an Environment Protection Executive and the Liberal Democrats have also put forward a national agency.

● Pollution from Britain forms 30 per cent of the acid rain that falls on Norway, according to the European monitoring programme on air pollution.

Mrs Uni Mathisen, political adviser to the Norwegian environment minister, said in London that the results showed that Britain was a bigger contributor to Norway's acid rain than eastern European countries such as Poland.

Further growth in satellite television

SATELLITE television had its fourth consecutive good month in June with 64,000 new satellite dish installations.

That means that since March 288,000 homes have installed dishes to receive BSkyB plus other satellite channels such as Lifestyle, MTV, Children's Channel and Screensport.

According to the FT Satellite Monitor, 1.624m homes in Britain have satellite dishes.

The 64,000 increase for June means there has been a virtual doubling of homes with satellite television systems in the past 12 months.

Continuation of Amstrad's £199 equipment offer and poor weather have helped keep sales up, according to Mr John Clemens, chairman of Continental Research, which produces the Monitor based on interviews with more than 4,000 adults a month.

More than 5m people now live in homes with satellite television and have access to the new channels. The total includes 1.5m children and around 10 per cent of young adults aged between 15 and 34.

Television advertising and heavy promotion in shops has increased the numbers of those who say they plan to install satellite television for the first time this year.

Nearly 4m homes now either have satellite television or say that they will definitely install dishes - 18 per cent of UK homes.

Pearson, publisher of the Financial Times, has a significant stake in BSkyB.

Lawson retaliates on Ridley memoirs

By Alison Smith

THE SHADES of two ex-cabinet ministers returned to haunt the Tory party yesterday as Mr Nicholas Ridley, formerly trade secretary, provoked Mr Nigel Lawson, the former chancellor, with an accusation of "ambushing" Mrs Thatcher over the UK's entry into the European exchange rate mechanism.

Although the events in Mr Ridley's new book, My Style of Government – The Thatcher Years, have lost much of their immediate political resonance, the material is enabling the opposition to portray the Tories as deeply divided.

Mr Lawson said yesterday on BBC television's On The Record that there was "no truth in any stories of betrayal or improper conduct either from myself or on the part of Sir Geoffrey Howe".

It was, he said, "very sad" that Mr Ridley, who was "a bit of an unguided missile", should "traduce his senior former colleagues". He said Mrs Thatcher had been unwilling to discuss ERM membership.

Mr Ridley writes that immediately before the EC summit in Madrid in 1989 Sir Geoffrey Howe, then foreign secretary, and Mr Lawson warned Mrs Thatcher that unless she agreed to commit the UK to join the ERM by a fixed date they would resign.

On Mrs Thatcher's downfall, he comments, that while there was no deliberate conspiracy to defeat her "it was remarkable how quickly some people came to the conclusion that 'she cannot win'".

Mr Gordon Brown, the shadow trade secretary, said Mr Ridley had exposed a Conservative party incapable of providing the necessary purpose, direction and vision.

My Style of Government – The Thatcher Years, by Nicholas Ridley. Hutchinson, £16.99.

OUTLOOK FOR THE ECONOMY

W Midlands hints at start to recovery

By Paul Cheeseright, Midlands Correspondent

MUFFLED signals that the recession has bottomed out emerge from a survey of manufacturing companies by the West Midlands Regional Group of Chambers of Commerce.

Business confidence remains at a low ebb and – as at any time during the last year – the overwhelming majority of companies plead for lower interest rates. There is scant corroboration in the survey results for the economic optimism of recent government statements.

The survey, published today, covers the experience and expectations of 470 manufacturing companies throughout the West Midlands. Chamber of Commerce membership is concentrated among smaller and medium-sized companies.

Evidence that the recession is not as severe now as it was in March comes from the reduced proportion of companies reporting a reduction in home and export orders and deliveries. The number of companies working at full capacity fell to 12 per cent from 13 per cent between March and June. Those working at above 80 per cent capacity remain at 32 per cent.

Job prospects appear to be improving slightly. The proportion of companies expecting redundancies over the next quarter has fallen to 26 per cent from 37 per cent last March, while the percentage of companies expecting the size of their workforce to remain constant increased to 65 per cent from 59 per cent.

The West Midlands Enterprise Board has noted that although unemployment in the West Midlands region rose again in May for the seventh successive month, the rise was smaller than in either April or March. Unemployment has risen much more sharply in West Midlands county – largely the Birmingham-Black Country conurbation – than it has in surrounding areas.

Against that background, the Chambers of Commerce report that 45 per cent of companies are still finding it difficult to recruit skilled manual labour.

Mr Howard Davis, the chairman of the Regional Group of Chambers of Commerce, pointed to potential difficulties in the future. "Companies across the board are sitting on their plans for investment in plant, machinery and buildings. They are not convinced yet that it is safe or wise to make the investments necessary to develop their businesses," he said.

At a time when many companies are contending with reduced profits, 37 per cent predict that profitability will remain the same, while 39 per cent expect it to worsen.

Blot on the landscape: the two-acre hole in Wrexham's town centre where a planned £23m shopping redevelopment failed

No cheer yet in the depths of depression

Michael Cassell reports on the way one town is weathering the economy's downturn

"WREMARKABLE Wrexham", to borrow the town's latest marketing slogan, is being put through the wringer by the present "wrecession".

Tucked into the crook of the arm of the River Dee and perched on Snowdonia's doorstep, the town that calls itself the capital of north Wales has been slowly succumbing to the economic squeeze.

Nominated by the Henley Centre for Forecasting as one of Britain's likely commercial "hot spots" during the 1990s, Wrexham is experiencing an unwelcome cooling-off period.

One symbol of Wrexham's interrupted economic progress is the two-acre hole in the centre of town. The £23m town centre shopping redevelopment lies silent, its developer in the hands of an administrative receiver.

Nearby, queues still form outside the tripe shop and coaches bring in bargain hunters from Blaenau Ffestiniog and Betws-y-coed to the open-air market in Eagle's Meadow. But money is tight in this working-class town and people are more careful than ever.

Estate agents' windows, reflecting the return of hard times, are crammed with unrepeatable offers – five bedrooms reduced to £66,950 for a quick sale or a smart, end-terrace for offers around £32,950.

As mortgage rates tumble, the housing market stubbornly reflects lack of confidence in the future. According to Mr Geraint Jones, manager of Thomas Adams, a local estate agency: "The position is not helped by continuing job losses and we are seeing more repossessed homes coming on to the market.

"We are selling more homes than last year but we are still just plodding along."

The most spectacular victim of the Wrexham's ailing economy emerged last autumn with the closure of the Brymbo steelworks, a victim of modern technology and declining order books.

With once extensive coal-mining activities evident only from a visit to a local-heritage museum, Brymbo's demise also ended 200 years of iron and steel production in the area. It also added more than 1,100 well paid, highly skilled workers to the unemployment register.

Mr Gwyn Evans, senior manager of the local National Westminster Bank, says the closure "knocked the stuffing" out of the town. Small businesses, though, have so far proved very resilient to the downturn and few have folded. "The Brymbo closure started the rot. We were doing fine until then," Mr Evans adds.

Wrexham had been, indeed, notching up its fair share of success in replacing an outdated industrial base with a new generation of international, high-tech companies from countries as far afield as the US and Japan. Aided by government funds available for development areas, together with European Coal and Steel Community finance, Wrexham has worked well with agencies such as the Welsh Development Office in broadening its economic base.

Names such as Sharp, Brother Industries, Kellogg and Continental Can have come to town, drawn by financial inducements and the prospect of available, relatively cheap labour. There is plenty of "screwdriver work", which means that youth unemployment has been lower than in other parts of Wales. Even so, average pay for women in the county of Clwyd is the lowest in Britain.

Impact of recession

Since Brymbo died, more than 1,000 other jobs in the town have also been lost and unemployment is rising. BICC Cables has cut 75 jobs and JCB transmissions has also announced lay-offs. Courtaulds, once a powerful presence in Wrexham, said last week it would shed about 70 jobs at a local garment factory.

The day before, E. Walters, another clothing manufacturer, said the recession was forcing it and 105 jobs out of the town after 30 years. Machinist Mrs Bunty Buffey said she was "sick and sad" and wondered where else widows like her would find work.

In spite of the steady drip-drip of redundancy, the situation for jobs has not been too bleak. The town suffered unemployment of 20 per cent during the last recession – it is now around 8 per cent but steadily rising.

Against that, Mr John Marek, the Labour MP for Wrexham believes the recession is as bad as the last one. The government's manipulation of the unemployment figures, he says, disguises the extent of the crisis and he expects the jobless total to continue to rise.

News of the latest redundancies had just been given to him by the management of a long-established local company. "I do not see any relief in sight. Those who lost their jobs at Brymbo have spent the last year on retraining programmes and will soon emerge on to the jobs market. We have a bleak winter ahead of us."

Even the Japanese are beginning to show the strain, with Brother Industries announcing redundancies.

That decision surprised Mr Evans, also the chairman of the Wrexham Chamber of Trade and Industry. He does not expect the recession to bottom out before the year's end.

He says: "British companies tend to be very short-term and look to the next dividend. The Germans and Japanese take a longer view and have a different approach to recession, trying to maintain production and employment."

There are seven big Japanese employers in the area and Mr Marek thinks that is enough. "We do not want to become too over-reliant."

His view is not shared by Mr Bob Dutton, chief executive of Wrexham Maelor council, who views the latest downturn as "a hiccup". He explains: "By broadening the local economy, we have helped to ensure that it fares better when times get tough. We are buoyant enough to see this out."

Mr Dutton points to a new, £7m joint venture between Dowty Group and two Japanese companies to make polymer components. There might eventually be 500 new jobs. A precision-engineering company is also moving into Wrexham.

"Wremarkable Wrexham" may yet weather the "wrecession".

This is the first of a series on the impact of the recession.

Directors report a fall in optimism and urge rate cuts

By Michael Cassell, Business Correspondent

THE INSTITUTE of Directors, in its latest survey of members' opinions, published today, reports that signs of rising optimism about economic prospects recorded two months ago appear to have receded.

It is calling for further, early cuts in interest rates.

The institute said confidence had shown a decline. In April 20 per cent of its members were reported to be less optimistic than six months previously. The figure had now risen to 45 per cent. Slightly more than a quarter of the 300 directors who took part were more optimistic.

Mr Peter Morgan, director-general of the institute, said the results of its latest survey confirm that the revival in confidence apparent in the spring was no more than a "blip". He said, emphasised, however, that directors were not as pessimistic as they were at the beginning of 1991. "While we continue to support the chancellor's counter-inflation strategy we believe the steady and sustained reduction in the retail prices index has opened the way for a further reduction in interest rates and that Mr Lamont should take it at the earliest opportunity," he said.

The survey showed that in spite of the poor outlook, 58 per cent of members believe their companies are still performing well. Directors continued to report weak demand and cash flow difficulties as among their biggest problems.

Bi-Monthly Business Opinion Survey. Institute of Directors, 116 Pall Mall, London SW1Y 5ED. Free.

Fund managers gain confidence in equities

By David Waller

UK FUND managers' willingness to invest in the UK equity market recovered last month, even though no clear consensus emerged on the likely outcome of the next general election and no great confidence was shown in the economic outlook.

Those findings emerge from a poll conducted by Gallup for Smith New Court, the securities house.

The poll covered 107 institutions with a total of £512bn under management. It showed the highest balance of respondents planning to increase their holdings in UK shares since March this year. Nearly a quarter of the institutions are actively planning to buy UK shares, while 86 per cent are optimistic about the longer-term prospects for the market – more than for any of the world's other stock markets.

The institutions are tepid about the prospects for economic recovery: 80 per cent expect the UK economy to "get a little better" over the next 12 months. There is unease about the outlook for inflation, with 21 per cent of the institutions expecting inflation in a year's time to be at the same level as it is now or higher.

They expect earnings for UK quoted companies to fall by 2.6 per cent in 1991 and to grow by 9.9 per cent in 1992.

A 58 per cent majority of the fund managers thinks that a hung parliament is the most likely outcome at the next election, with 34 per cent believing that the Conservatives will be the leading party, against 24 per cent for Labour. Some 28 per cent believe that the Conservatives will win an outright majority and 12 per cent that Labour will win outright.

Small progress predicted in market for semiconductors

By Michael Skapinker

THE depressed semiconductor market will show only a slight recovery this year, with sales still below 1989's level, according to the Electronic Components Industry Federation (ECIF).

The federation said it expected UK semiconductor sales to rise 1.9 per cent this year to £1.22bn. The semiconductor market fell 6.6 per cent last year to £1.19bn.

The ECIF said that investment in the UK by Japanese vehicle manufacturers will boost chip sales in future years. The 1992 Olympics should also increase the demand from UK-based Japanese television manufacturers.

The ECIF expects the semiconductor market to increase by 16.4 per cent next year to £1.42bn and by 19.7 per cent in 1993 to £1.7bn.

The federation said the market suffered this year and last from reduced demand from UK manufacturing industry and the fall in defence spending.

The sale of semiconductors to the automotive industry increased slightly, however. Reduced domestic demand for cars was offset by the increased use of electronic components in vehicles.

Demand for semiconductors from the consumer electronics industry also remained strong, as locally based Japanese television manufacturers increased sales to continental Europe. There was strong growth last year in chip sales for satellite equipment. That was adversely affected, however, by Sky Television's merger with British Satellite Broadcasting and by the consumer slowdown.

MANAGEMENT

Corporate restructuring

How Berisford shed a £1.2bn debt

Maggie Urry reports on the property and commodities group's efforts to agree a package with the banks

While some large companies were being forced into receivership and others into highly public rescues last year, one business was quietly negotiating the refinancing of more than £1bn of debt with 68 banks.

It knew that if the talks leaked out, the result would probably have been receivership. Judging by the share price, the stock market was largely unaware of just how poor was the state of the group's finances.

Berisford International, the property and commodity trading group, can now talk freely about the intense period of talks last summer which eventually led to the signing of a deal with its banks in September.

The package envisaged the group selling assets to repay debt. With 40 businesses since closed or sold, it now looks certain that in less than a year from the signing of the agreement, Berisford's debt will have been eliminated. Last Friday the group announced that its debts had been cut to under £10m.

Murray Stuart, Berisford's chief executive, says: "The banks will be completely discharged and shareholders will have a residual asset." He believes that if the company had gone into receivership, "there would not have been anything for shareholders and the banks would not have got all their money back". What is more, the process could have taken years.

Berisford's problems date back some time, but by 1989 the group was in a dire financial position. Stuart cites as an example a decision to invest £200m in UK property in 1989, near the top of the market.

By the annual meeting in March 1990, concern about the group's disastrous New York property investments was rife among shareholders. Notable among these was Associated British Foods, the milling and baking group which had a 23 per cent stake in Berisford as a legacy of a bid won and then withdrawn in 1987. ABF asked questions at the meeting and institutional shareholders pressed for further talks with management shortly.

Within a few days, Ephraim Margulies, Berisford's chairman, a colourful character who had been caught up in the Guinness affair but had not been prosecuted, resigned.

John Sclater, a non-executive director, took over as chairman and set about recruiting a new management team, including non-executive directors. By the summer, practically the entire board had changed. He soon found that the company's problems were far deeper and wider than its exposure to New York property.

His main worry was an almost complete mismatch between assets and liabilities. Despite the long-term nature of assets such as property, the group was almost entirely relying on short-term, uncommitted lines of credit. Sclater's first priority, say those involved, was to normalise the banking arrangements.

It seems that it was only as talks progressed with the group's 68 lenders, headed by National Westminster and Barclays Bank, that the banks realised the extent of the mismatch.

At the same time, Coopers & Lybrand Deloitte, the accountants, was asked by Berisford and Charterhouse, its merchant bank, to produce an independent report on the company, its finances and its viability under a series of different scenarios.

The report, prepared by Richard Stone, who later dealt with Polly Peck International, the international trading group which went into receivership, concluded that if British Sugar, Berisford's sugar beet processing subsidiary, could be sold at a minimum of £700m, the company as a whole could be saved.

"The whole thing was predicated on British Sugar being sold," says one banker involved. The sugar business had a good profit record and was well-managed. Further, it was "ring-fenced" – it could easily be detached from the rest of the business.

In early May 1990 the group and its merchant bankers put a presentation to the banks outlining the possible courses of action and asking for a standstill on the loans. Suddenly the banks, from Europe, Japan and North America as well as leading UK banks, realised they were being asked to leave their money in the company when they could have demanded repayment on roll-over dates.

The banks' own involvements with the group were varied; some had lent only to British Sugar, some to the commodity trading side, some to the holding company, some on the New York properties. Some were involved in a £300m multi-option facility (MOF) which had not been fully drawn. Others happened to be lenders on a particular day and felt that the MOF banks ought to replace them.

But despite these frictions, the standstill agreement was signed on May 23. There followed an intense six weeks of work as the restructuring was put together. In the end, separate packages were tailored to the needs of three groups of lender: those which had lent to the coffee business, British Sugar, and the rest of the group.

The packages gave the lenders security over the assets, restrictive covenants on the group's financial ratios and higher interest rate margins, as well as fees, in return for their commitment. A debt/equity swap was not necessary, says one banker. "There was no need to dilute existing shareholders' interests because there was enough value in there. It was a liquidity problem."

Throughout this period, the company and its advisers were asking themselves daily whether the shares should be suspended on the grounds that there was a false market in them, and consulted lawyers and the Stock Exchange. The share price held up, partly buoyed by the hope that Tate & Lyle, a rival sugar processor, was considering a bid for Berisford. Had the refinancing been generally known, the share price would certainly have been well below the stock market level.

Early on in the process, ABF had been invited to put a representative on the Berisford board, even though it was a prime candidate to buy British Sugar, and was the eventual purchaser. But, says Harry Bailey, finance director of ABF, the group wanted to remain at arm's length and keep its options open.

"We were privy to the information that Berisford was in negotiation with its bankers to do a refinancing," Bailey says. "Once we knew that, our freedom of action was restricted." Stuart describes ABF's behaviour as "extraordinarily responsible".

With the largest shareholder in on the secret, why were the shares not suspended? The group and its advisers knew that if the refinancing talks leaked out, the commodity market's confidence in Berisford's commodity trading business would plummet.

Says one banker: "We were extremely anxious that the market should not lose confidence in the commodity side or it would lose value. It would have caused the company to go under. Every day we asked ourselves: 'Are we more than 50 per cent confident that the restructuring would succeed?' So long as we were, we could justify not asking for a suspension."

By early July, the refinancing had been agreed in principle with the lead banks and was to be recommended to the others, although the documentation was to take until September to complete.

Only then was anything said publicly. Reporting interim results on July 5, Sclater's statement said: "The board has been negotiating with its bankers to put all the group's bank indebtedness on a more structured basis, properly reflecting the group's changing structure and current financial needs."

The balance sheet for March 31 showed the extent of the group's problems. Net debt stood at £1.02bn, excluding £226m of off-balance-sheet debt, while shareholders' funds had fallen – under the weight of provisions and write-downs of property values – to £240m from £386m the previous September. By September 1990, equity was to fall to £93m.

At this point, Stuart joined Berisford, having just retired from MB Group, the building products and security printing company with interests in packaging. He says that by the time he arrived, a number of battles had already been fought. "The banks behaved in a very constructive and supportive way," he says, though they were being asked to approve complex changes to the group's structure which were not in line with normal banking procedures and some of the banks had no experience of dealing with financing a commodity business.

While the refinancing talks were continuing, the separate refinancing of Rayner Coffee International, then a 65 per cent-owned coffee trading business – "not a business with a jewel in it," says Stuart – was also under negotiation and the asset disposal programme was beginning.

In July, Berisford announced the sale of NGI, a loss-making New York gold jewellery maker, which had lost stock of $54m through theft. At the same time, the closure or sale of the various financial services activities was reaching advanced stages and a possible management buy-out of the UK property business was under discussion.

In October, the Rayner deal was signed with its 14 banks, and Berisford's stake was cut to 35 per cent.

The sale of British Sugar had to be organised too and Schroders, the merchant bank, was picked to handle an auction which opened in September. By December, ABF had been selected as purchaser at a price of £880m, close to the £900m top of the range figure Coopers had estimated.

Then, says Stuart, the documentation for the sale was tied up in little more than a week of "working like crazy" and was signed one Saturday morning at "3 or 4 am".

With British Sugar sold, Stuart was able to get on with smaller disposals. He completed about half the total of 40 sales in the first quarter of this year.

By the time of the publication of interim results last month, net debt had been cut to £74m, or £99m including off-balance-sheet guarantees, plus a $144m guarantee for Rayner. The group's net assets had started to recover, reaching £275m, as profits were achieved on some asset sales. Losses had been stemmed and the interest charge cut.

The group revealed it has paid £14.7m in additional interest charges following the refinancing up to March this year and fees and costs had totalled £10.7m.

Stuart says he has not added up the total cost of the affair, but the banks have been well rewarded for their patience and support.

Clearly, Berisford's survival depended on having British Sugar which it was able to put up for sale. But Sclater says there were other vital issues behind the success of the rescue operation. He says the company and the banks had to work together to solve the problems and everyone realised "there was no point in confrontations". This happened, he thinks, only because of the management changes. "It would be almost impossible for an entrepreneur who has built up a company to sort it out if it gets into distress," he believes.

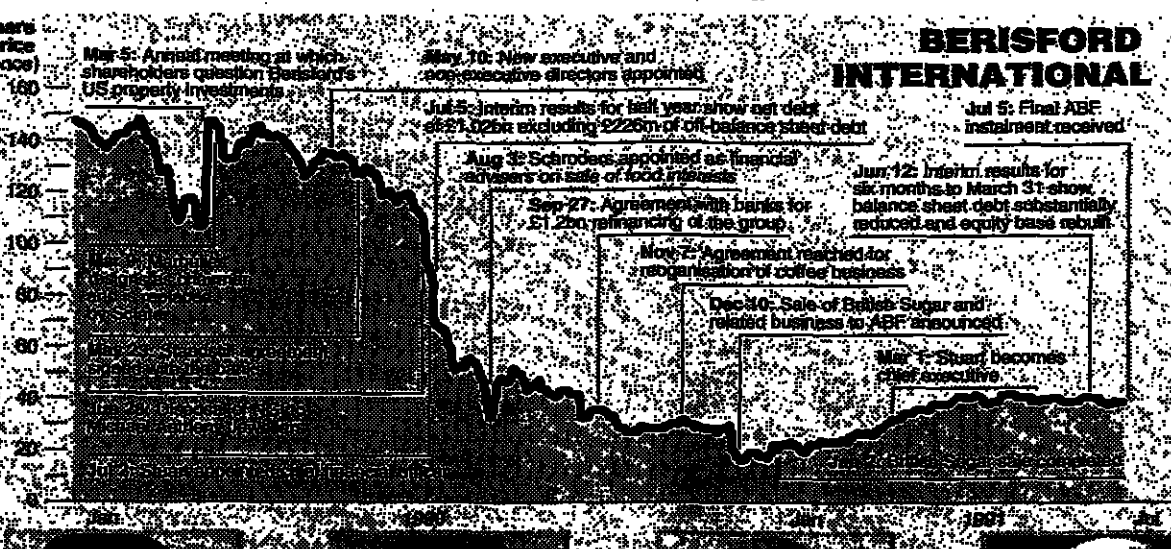
Further, he says, it was an example of the City of London operating at its best, with the personal involvement of top officials at the lead banks and with supportive shareholders. "For two months, 68 banks had price-sensitive information and it never leaked," he says.

Yet in a sense, the real work at Berisford is just beginning. To recover the value shareholders have lost, the group now has to find a new business core – the options of winding the company down or selling it would not, its directors think, give shareholders as much.

The remaining businesses will allow Berisford to keep its share quote while it looks for acquisitions, but "the businesses we have got won't give a worthwhile return to shareholders," says Stuart.

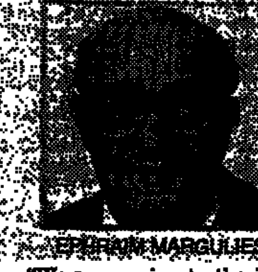
As yet no decisions have been made. So far, it has been a matter of ruling things out rather than in. Berisford cannot afford to pay for a lot of goodwill, nor is the management experienced in service or retail businesses. It has skills, Stuart believes, in optimising the use of assets. And though its prime area of activity is likely to be the UK, Berisford is mindful of the $600m of tax losses it has built up in the US which could be used to offset future profits from that area.

Berisford is now like an artist who has been handed a blank piece of paper and been told to draw something. "Given our track record we have got to do something convincing," he says.




MURRAY STUART


JOHN SCLATER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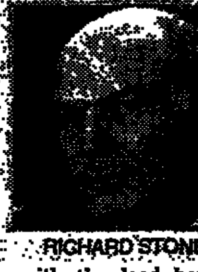

RICHARD STONE

COURIER & EXPRESS SERVICES

The FT proposes to publish this survey on July 24 1991.

In the UK the weekday FT is read by 30% of Board Directors involved in decision making about postal and despatch services. The FT's coverage exceeds that of any other daily newspaper. If you want to reach this important audience, call Philip Dodson on 071 873 3389 or fax 071 873 3062.

Data source: BMRC 1990 (weighted by company size)

FT SURVEYS

WALES

The FT proposes to publish this survey on 16 September, 1991.

It will be of particular interest to the 130,000 directors and managers in the UK who read the FT. If you want to reach this important audience, call Clive Radford on 0272 292565. Fax 0272 225974 or write to him at Merchants House, Wapping Road, Bristol BS1 4RW.

Data source: BMRC Businessman Survey 1990

FT SURVEYS

CONTRACTS & TENDERS

REPUBLIC OF PERU

DIRECCION NACIONAL DE CAMINOS DEL MINISTERIO DE TRANSPORTES Y COMUNICACIONES

TENDER NOTICE

JAPANESE NON PROJECT GRANT AID

The Government of the Republic of Peru has received a grant from the Government of Japan to contribute to the promotion of economic structural adjustment and intends to apply the proceeds of this to eligible payments under the contract for which this invitation to bid is issued. In this respect the Government of the Republic of Peru has authorised the Crown Agents for Oversea Governments and Administrations to act as its procurement agent and the Crown Agents now invite bids from eligible bidders from OECD/DAC countries (excluding the Republic of Peru who are ineligible) for the supply of the following required by the Direccion Nacional De Caminos.

ROAD CONSTRUCTION MACHINERY

Group 1 - 52 off Tipper Trucks
Fee US$ 150.00

Group 2 - Comprising Crawler tractors, motor graders, front wheel loaders, vibrating rollers, wheel tractors.
Fee US $ 200.00

Interested bidders may obtain the bidding documents for one or both groups for a non returnable fee (as indicated) or equivalent by contracting the following address:

Crown Agents
St Nicholas House
SUTTON, Surrey
SM1 1EL
England

For the attention of Mr M Russell, BJ Department

Telex: 916205 A/B Calond G

Fax: 081-643 0038 and 081 643 8232

Documents may also be obtained from Crown Agents offices in Lima, Peru: Miami, USA: Kobe, Japan: and Singapore.

Please quote BJ/PERU/DNC in all correspondence.

The tenders closing date is 13th August 1991.

BJ28.LB

TENDRING DISTRICT COUNCIL BANKING SERVICES

Applications are invited from banks for inclusion in a list from whom tenders will be invited for the operation of the Council's banking services for a 3 year period commencing April 1992.

Applications should be sent to the Director of Finance, Town Hall, PO Box 1, Clacton on Sea, Essex CO15 1SE to be received not later than Friday 9 August 1991.

RENTALS

LEGAL NOTICES

CRONITE ALLOYS LIMITED (IN RECEIVERSHIP)

NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above company will be held at the Hilton National Hotel, East Midlands Airport, Derby Road, Lockington, Derby, on 18 July 1991 at 11.00am for the purposes of having laid before it the report prepared by the Joint Administrative Receivers in accordance with the said act and, if thought fit, appointing a Committee.

Creditors whose claims are wholly secured are not entitled to attend or vote at the meeting. Creditors who are partly secured may only vote in respect of the balance of the amount due to them after deducting the value of the security, as estimated by them. A creditor in respect of a debt due on, or secured by, a bill exchange or promissory note must treat the liability of any person who is liable on the bill antecedently to the company as a security held by him (unless that person is subject to a bankruptcy order or in liquidation).

Creditors wishing to vote at the meeting must lodge a written statement of their claims with us at Cork Gully, 43 temple Row, Birmingham, B2 5JT no later than 12 noon on 17 July 1991. Forms of proxy, if intended to be used, must also be lodged with us by that time. (Faxed copies are not acceptable).

DATED this 3 July 1991
John F Powell and David J Stokes
Joint Administrative Receivers

CLUBS

Wilder side of the Italian Cinquecento

Patricia Morison views some strong stuff at the Walpole Gallery's exhibition

Even the great Italian masters did not always give customer satisfaction. Or so, at least, may have been the original fate of a Tintoretto which is one of the "clamorous rediscoveries" in the impressive exhibition of Italian 16th century paintings at the Walpole Gallery at 38 Dover Street (until 26 July).

All the paintings are on sale,except for the handsome *Portrait of a Collector* by Bartolomeo Passerotti lent by the Italian Embassy.

Among the artists represented are Veronese, Andrea del Sarto, Jacopo de' Barberi (an important panel painting of Christ as "Salvator Mundi"), Jacopo Bassano, and the weird Spaniard, Pietro Cavaro.

Where, then, did Tintoretto go wrong? If the Walpole Gallery's expert is right, then the problem with this version of the "Martyrdom of St Lawrence" (it is not the only one) was that it struck the Venetian grandee who had commissioned it as too modern.

And yet, Tintoretto was clearly much influenced by Titian's haunting and much larger masterpiece painted for the Gesuiti. He, too, had set the martyrdom at night and had created just such a frenzied scene in the torchlight of the half-naked executioners pinning the martyr to his bed above the red-hot coals.

Titian's painting is strong stuff, and maybe Tintoretto's client did not much care for it either. Or was the problem that Tintoretto, with his intensely theatrical sense, might have seemed to be rather piling on the agony?

The martyrdom in the Gesuiti, terrible though it is, has its point of serenity, the glimpse of heaven where St Lawrence fixes his tormented gaze. Tintoretto shows no heaven, only a night of unredeemed blackness. And for a family altar, that might have seemed too eloquent of the theatre and too little of the comfort of the Church.

For a really uncomfortable painting, to a modern eye at least, you need look no further than the marrow-freezing Crucifixion on panel by Pietro Cavaro. He is an almost unknown artist, although perhaps not so in Sardinia where he settled in the early 16th century and passes out of the art historian's ken in 1538.

If ever I go to Cagliari, one reason will be to hunt through the churches to see more of this painter. The Crucifixion is rather a dreadful painting, but it is fascinating to see a painter whose artistic pedigree seems to mingle the passion for distortion of the Antwerp mannerists, with the ferocity of Spanish late medieval art.

Apparently, some of Pietro's Sardinian altarpieces are a monstrous eight metres high. Looking at this one panel, the mind fairly boggles.

Even St Mary Magdalene and the Virgin look the most awful frights amidst this mass of limply squirming figures who bare their teeth in horrid grimaces. It is quite definitely the wilder side of the Italian Cinquecento.

After this strong Sardinian medicine, the newly rediscovered Veronese is something of a let-down. It is a small, roughly executed painting, probably meant to go high up in the decoration of a room.

How odd that someone should think it represents "Mars Restrained by Peace and Love". To my eye, the cupid is tugging the unarmed warrior forwards, although admittedly, there is no luscious lady waiting for him.

And as for the figure who pulls the balding, unarmed warrior the other way, whoever heard of Peace being a man?

Pietro Cavaro's marrow-freezing Crucifixion

The Double Wedding

ROYAL COURT

It is the boast of Barclay's New Stages season that it has put dance on the Royal Court stage for the first time. In the fourth, and most surprising, of a quartet of works it has also imported an ice rink. A small one, to be sure, and sparingly used, but an ice rink nevertheless. Rose English's bizarre and fitfully dazzling *Double Wedding* positively bulges with such effects – giving the lie once and for all to the idea that new theatre is high-minded and spartan.

English is a disconcerting performer because one can never quite be sure how seriously she takes herself: one minute she is earnestly expanding on the nature of Life and Art, and the next, she is sending herself up. This uncertainty was niggling enough when she appeared as one woman and a dog; her reappearance at the centre of a company of dancers, skaters and aerialists immures the ambivalence in a two-hour effervescence of outrageous camp, still without providing any answers.

Her idiom is art deco; her medium anything that takes her fancy, from movies to musicals – a chorus line of men in white top hat and tails salute her to her face and bitch behind her back as she attempts to reconstruct her great starring role, in the eponymous double wedding. Her chief subject, as always, is herself — a bony, gangling figure clad like a great Bacofoil mermaid in a figure-hugging sheath of silver lycra which erupts below the knee into a froth of gauze. She is, she informs us, with a windmilling of arms clad in red sateen gloves, a hostess and yet a hermit. With a grandiose flourish she introduces a company including cameramen, hypnotists and a beaky, dancing zeitgeist who she styles the Figment – "elusive and evasive, but he comes into his own in the second act."

She then begins to assemble her peculiar dramatis personae into send-ups of dramatic genre and of critical terminology. The two cameramen, Harry and Otto, discuss naturalism and cinemascope and their dreadful leading lady, by whom they are constantly bullied and berated. Oh, how they long for a return to drawing-room comedy.

"I think the technical word for this material is thin. That's what she's interested in," goes one conversation. It is a clue among many. More than once the thought dawns that her piece could simply be taking the mickey from the other companies taking part in New Stages.

There are certainly moments when one suspects oneself of being subjected to an extended confidence trick. How could she have spent so much money on so little? The art deco swathes of set, the changes of costume, the trapezes and that ice rink – all employed with a profligacy that in Rose English's book somehow passes as style. She provides a teasing end to the New Stages season – and a tantalising beginning for her co-sponsors, the London International Festival of Theatre.

Claire Armitstead

BOOK REVIEW

Choral Music on Record

Most of us in this country have experience of choral singing at some time or other. In my youth I was accompanist for the local Bach Choir when they ambitiously put on Bach's B Minor Mass with only one tenor, leaving the poor man at risk from schizophrenia as he tried to take on both first and second tenor parts, as well as helping out the basses when they sounded in need.

Amateur or professional, there is a long tradition of choral music flourishing in Britain. Handel's *Messiah* was written here and, heard in London by Haydn, prompted the composition of *The Creation*. Mendelssohn's *Elijah* was intended to satisfy the Victorian demand for oratorio, followed later by the big choral works of Elgar, Walton, Tippett and Britten.

All are included in *Choral Music on Record* (Cambridge University Press £19.50, 310 pp). This is the latest in the series edited by Alan Blyth, which has previously included volumes on opera and song. The book offers a critical survey covering all the recordings of the main popular choral works from Monteverdi to Janáček – a specialist subject on the face of it, but one which raises issues that will be of interest to any informed lover of this music.

The question it addresses is: how do we best do justice to these works? In the course of the 20th century, styles of performance have undergone enormous change. We started the century listening to Bach and Handel on a full-size symphony orchestra and look set to end it in the company of small bands of period instruments. Recordings themselves have played a crucial role, disseminating new findings, speeding change.

All this is marvellously summarised for the reader in this new volume. By following through the various recordings of, say *The Messiah*, in chronological order, one can appreciate at a glance the evolution of style as it has taken place.

In addition, it is not until you read this chapter or the one on Fauré's *Requiem* that you realise exactly what you have been listening to in the past, so many different versions of those scores are there.

As in previous volumes, Blyth has allocated each chapter to a writer with specialist knowledge of his subject. Teri Noel Towe, an American critic, is particularly good on the major Bach and Handel scores. David Cairns is eloquent on Berlioz. Blyth himself is authoritative on Elgar. The best chapters are so informative that one regrets all the more those that degenerate into an indigestible list of recordings and performers.

Ironically the book arrives at a time when the very definition of choral music is being questioned, with some recent recordings of Monteverdi and Bach being sung not by choirs, but solo singers one to a part. Perhaps Mr Poot, the much put-upon tenor in our local choir, could claim to have been one of the earliest practitioners of authentic performance practice. It makes you think.

Richard Fairman

Tosca

COVENT GARDEN

The murder scene was bloodcurdling. Tosca set about the deed with unbridled violence, stabbing her Scarpia twice and then crouching low over the body ready to strangle him as he expired, until they finally became entwined in a ghoulish, deathly embrace.

This *Tosca* sounds like the real thing, you might say. It is, after all, not often that a performance of the opera manages to break away from the traditional movements that are unthinkingly handed down from one cast to another. But unfortunately that chilling denouement to the second act was the best moment in an evening that otherwise gave a fairly slack account of Puccini's melodrama both in dramatic and musical terms.

The Tosca with ideas very much of her own was Maria Ewing. She hastens on to the stage a slight and nervy figure, lips pouting girlishly, eyes defensive in danger, every expression and movement restlessly alive. It is a virtuoso piece of acting with which her singing can barely keep up. For Ewing is no Puccini soprano and the amount of vocal trickery that is called into play just so that she can get the notes out with sufficient power is nobody's business. An account of the aria alone, which she delivers uniquely as "Viss – hee d'arte", could cover a page or more.

To hear what is lacking there is no need to wait longer than the first duet that she has with her Cavaradossi, Placido Domingo. It is 20 years since Domingo first appeared at Covent Garden (also in *Tosca)* and he is still reliably as he was then, a firm and glowing tenor, right for Puccini in the weight of his voice and also in the way he uses it.

Domingo does not quite make an exciting Cavaradossi, but he is a most impressive one and a constant pleasure to hear.

For this revival (only three nights plus a concert performance at Kenwood) the Royal Opera has mixed a few new faces and some old stalwarts.

The Scarpia of Justino Diaz was one of the first-time visitors, strong in voice, malevolently dark and incisive, though he has little that is new to say about the character.

Michel Plasson remained as conductor from earlier in the year and did little to negate the impression of a lazy, insufficiently-rehearsed production.

Outside, as the singers took their curtain-calls, roars of applause went up from the audience in the piazza, who had been watching the opera relayed live on a big screen. The other performance to be shown in this fashion is on Thursday and that is the only way that you are likely to see this *Tosca*, as the management has chosen not to put seats on sale to the general public.

Richard Fairman

Orfeo ed Euridice

COVENT GARDEN

Gluck's *Orfeo*, given unbroken (and shorn of a few dances) in its original version, has rejoined the Covent Garden repertory. The Harry Kupfer production is in fact the one first shown to the house during the Berlin Komische Oper's 1989 London visit; on Friday the Royal Opera's decision to borrow it seemed to me an extremely unwise move. Striking on the surface, messily distracting in detail, incoherent at the core, it only just stood up to a first viewing. In the eyes and ears of at least one Gluckian in the audience, it completely collapses at a second.

Striking it undoubtedly remains. The side mirrors (on to which scenes of contemporary urban angst are projected) and central revolve set up patterns of reflection which – for the first 20 minutes, anyhow – create their own powerful fascination; the young pop singer Orpheus, perfectly incarnated in physique and countertenor voice by Jochen Kowalski, threads his way through its scenes of bereavement with the nakedly passionate involvement that Gluck has always required from his interpreters.

But the gloss soon begins to wear off. Likewise, a moment's questioning begins to pierce its flimsy logic. Why does Eurydice run off (as we see during the overture dumbshow) to be then run over? What does the child-Cupid figure with ghetto-blaster stand for – especially if his advice, sung by a boy soprano from the side stage, is ignored? Is the trick of suddenly getting the principals (Orpheus first, Eurydice later) to pick up scores and "concert manners" some sort of alienation device? Why do pop singer faces (Bowie and others) flash across the screens during "Che faro"?

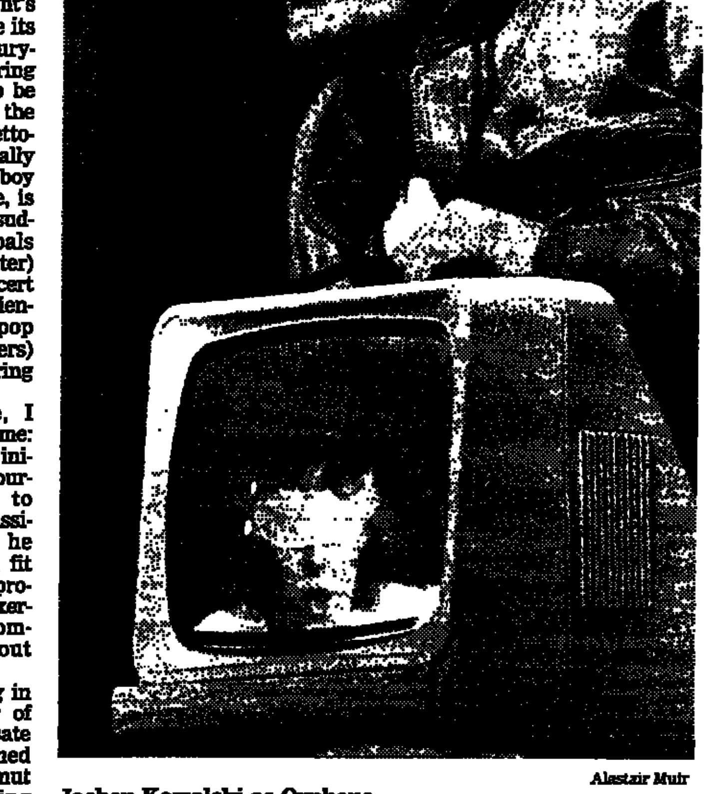
The answers to these, I would guess, are all the same: Kupfer, having hit on his initial series of "relevant-for-our-time" images to apply to Gluck's and Calzabigi's Classical myth, found that he couldn't really make them fit all the way through. The production as it stands is an exercise in desperation incompletely disguised by all-out stagecraft.

On a hot, sweaty evening in Covent Garden, the power of Gluck's music to compensate for stage deficiencies seemed unfamiliarly dimmed. Harmut Haenchen's slack conducting of the opening scenes (all those soggy-sentimental phrase-shapes) began to tauten a bit in later acts, but the playing and choral singing hardly ever developed the necessary thrust and clarity. Though Jeremy Budd sang sweetly (in weak Italian), a boy-soprano Cupid doesn't begin to do justice to the music.

Kowalski's impersonation – not his fault – moves from affecting to absurdly caricatured (by the end the voice was beginning to sound tired). He could usefully learn a few hints in underplaying from Gillian Webster, whose exquisitely clean, strong Eurydice is the evening's greatest asset.

These are hard words for a show so highly praised in 1989. But *Orfeo* is a work which lives in the minds of all who love it as one of opera's most profound attempts to grapple with the themes of death, mourning and the power of art to transcend mortality; it demands the highest standards of judgment. In this production its revolutionary simplicity is cluttered and clogged, its severely beautiful balance of style and content sacrificed to headline-grabbing sensationalism.

Max Loppert



Alastair Muir

Jochen Kowalski as Orpheus

INTERNATIONAL

ARTS PREVIEW

& FESTIVALS

The New York City Opera opens its 1991 season tomorrow with Stephen Sondheim's A Little Night Music. This week's repertory also includes Tosca, Turandot and Bizet's Les pêcheurs de perles, all sung in the original language with surtitles. The season runs till November and includes five new productions. Nicholas Muni's production of La traviata (July 27), originally presented by Tulsa Opera, is set among the demi-monde of contemporary Paris and New York, with sets by John Conklin. The conductor is Guido Ajmone-Marsan, and Violetta will be sung by Sheryl Woods. Jonathan Eaton's staging of Cavalleria Rusticana and I Pagliacci (Aug 3) is to be set in New York's Little Italy at the turn of the century.

The season also includes the New York premiere of Bernd Alois Zimmermann's Die Soldaten (Oct 8), the return of Korngold's Die tote Stadt after an absence of 13 years (Sep 20), a revival of Frank Corsaro's production of The Cunning Little Vixen conducted by Christopher Keene (Aug 20) and an appearance by the veteran baritone Louis Quilico in Frank Loesser's 1956 musical The Most Happy Fella (Sep 4).

Tomorrow, New York's Lincoln Center also sees the start of the 25th annual Mostly Mozart Festival (till Aug 24). The opening gala features James Galway and Andre Watts as soloists with the festival orchestra conducted by Gerard Schwarz. Among the artists making their festival debuts in coming weeks are Isaac Stern (July 12 and 13), Andre Previn (Aug 13, 14, 16, 17) and the Swiss conductor Armin Jordan (July 23, 24, 25, 26). One of the focal points of this year's festival is the 'Mozart Experience' weekend (July 27 and 28) presided over by Roger Norrington, who will conduct the period-instrument London Classical Players. The programme follows a familiar Norrington formula, juxtaposing performances with talks, discussions and demonstrations. The focus will be on the music of 1791.

Tonight's performance of Swan Lake at the Metropolitan Opera marks the start of the Royal Ballet's first New York visit for eight years. The season, which runs till July 20, also includes Kenneth MacMillan's Manon, the American premiere of his latest work for the company Winter Dreams, and works by Ashton and David Bintley. Meanwhile the New York City Ballet this week moves to the Saratoga Performing Arts Center for its annual summer season (July 10-27), with Peter Martins' staging of The Sleeping Beauty on Wed and Sat, and his new ballet Ash (music by Michael Torke) also featured in a season dominated by works by Balanchine and Robbins.

FESTIVALS GUIDE

AIX-EN-PROVENCE

The 1991 festival opens tomorrow with a new production of Le nozze di Figaro at the Théâtre de l'Archevêche, conducted by Friedrich Haider, staged by Rudolf Noelte and designed by Sigwulf Tureck. The cast includes Charlotte Margiono, Judith Howarth, Andreas Schmidt and Manfred Hemm (also July 16, 19, 23, 27, 31).

Pier Luigi Pizzi's new production of Rameau's Castor et Pollux opens on Wed (also July 13, 20, 24), with the orchestra and chorus of Les Arts Florissants under William Christie. The festival also includes stagings of Mozart's early sacred play Die Schuldigkeit des ersten Gebots (next Mon) and Britten's A Midsummer Night's Dream (July 18). The concert programme starts in earnest next week. Ends Aug 2. (16) 4217 3434

AVIGNON

Peter Brook's production of Shakespeare's The Tempest opens on Fri at Les Taillades, and runs daily till July 31 (except July 14, 21, 28). The work will be performed in a new French translation by Jean-Claude Carrière. From tomorrow till July 17, a Jorge Lavelli production based on three works by the Spanish writer Ramon Maria del Valle-Inclan will be performed in the courtyard of the Papal Palace. Each of the three works takes up a separate evening.

On Wed, the festival presents the first of three productions devoted to the radical east German dramatist Heiner Müller (including Hamlet Machine on Thurs). Strindberg's Dream Play, directed by Isabelle Pousseur, opens at the Gymnase Aubanel on Fri. Ends Aug 2. (90) 862443

DROTTNINGHOLM

The final performances of Michael Hampe's new production of Idomeneo, conducted by Arnold Ostman, can be seen at the Court Theatre on Thurs and Sat. The cast includes Anita Soldh, David Kuebler and Stuart Kale. Ostman also conducts Mozart's Requiem on Wed, Fri and Sun, with soloists Malin Hartelius, Annika Skoglund and Kristin Sigmundsson. The festival then takes a break till Aug 23, when Haeffner's Electra returns for a final run of performances. Ends Sep 6. (8) 660 8225

EPIDAURUS

The drama festival at the Ancient Theatre of Epidaurus has two performances this week: the Theatre Organisation of Cyprus presents Aristophanes' The Wasps on Fri and Sat. Ends Aug 31. Ticket information from Athens Festival box office (1) 322 1459 during the week, or the Epidaurus Theatre on days of performance (753) 22026

GLYNDEBOURNE

Peter Sellars' controversial production of Die Zauberflöte returns on Sat, with a new English translation by Alice Goodman and the London Philharmonic under Andrew Davis taking the place of last year's original-instrument orchestra. Trevor Nunn's production of Idomeneo, conducted by Graeme Jenkins, can be seen tonight and Sun, with a cast led by Carol Vaness as Electra and Keith Lewis in the title role.

Nunn's cruise-liner staging of Cosi fan tutte, with the Orchestra of the Age of Enlightenment conducted by Simon Rattle, can be seen on Wed, followed on Fri by Glyndebourne's first-ever production of La clemenza di Tito, highly praised on this page last week after its premiere. Ends Aug 23. (273) 541111

MONTREUX

The Montreux Jazz Festival, celebrating its 25th anniversary, is organised this year by Quincy Jones. Miles Davis gives tonight's concert, followed by George Clinton and James Brown tomorrow, Elvis Costello and Bonnie Raitt on Wed, the Don Grolnick Band with Joe Henderson on Thurs, B.B. King on Fri, an Italian evening on Sat and Swiss performers on Sun. Ends July 21. (21) 9631212

RAVENNA

The week is dominated by staged performances of Cherubini's Lodoiska on Thurs and Sat in the Teatro Alighieri, in Luca Ronconi's Milan production conducted by Riccardo Muti. The cast includes Susan Patterson, Thomas Moser, Bernard Lombardo and William Shimell. Muti also conducts the Orchestra of La Scala in a Cherubini and Verdi concert on Fri in the Piazza San Francesco. Tonight in the Basilica di San Vitale, Christine Whittlesey is soprano soloist in a concert of music by Bach and Hugo Kach. Tomorrow, Bruno Zagni conducts a choral concert at the Piazetta dell'Esarcato. Ends July 24. (544) 482494

SAVONLINNA

This evening's performance is the first night of Laszlo Seregi's production of the ballet Romeo and Juliet, designed by Anneli Qvefiander (also July 11, 16, 18). Tomorrow Miguel Gomez Martinez conducts Andras Miko's production of Aida, with a cast led by Ruza Baldani, Helena Doese, Jaakko Ryhanen, Matti Salminen and Tom Krause (also July 13, 15, 19).

Otto Schenk's production of The Bartered Bride can be seen on Wed (also July 12, 17, 20) with a Finnish cast. There are late-afternoon recitals at the Music Institute from Wed to Sat. Ends July 31. (57) 514700

SCHLESWIG HOLSTEIN

Tonight's events include a song recital by Barbara Hendricks in Rellingen (repeated on Wed in Westerland), a concert in Altenhof by the Northern Sinfonia with Heinrich Schiff as conductor and soloist in John Casken's Cello Concerto (repeated tomorrow in Nieblum/Fohr), and a concert at Husum by the Deutsche Kammerphilharmonie with the Soviet violinist Tatyana Grindenko.

Lorin Maazel brings the Bavarian Radio Symphony Orchestra to Flensburg tomorrow with a Ravel and Stravinsky programme, and there are Prokofiev chamber music evenings led by the violinist Dmitry Sitkovetsky in Wotersen and Schleswig on Wed and Thurs.

Rudolf Buchbinder plays Beethoven piano sonatas in Lübeck on Fri, and Yevgeny Kissin joins the Festival Orchestra under Mstislav Rostropovich on Sat in a performance at Kiel of Mozart's Piano Concerto No 27 (followed by Shostakovich's Eighth Symphony). Rostropovich conducts another Shostakovich and Mozart programme at Flensburg on Sun. Ends Aug 25. (431) 567080

SPOLETO

The final week of this year's festival brings the Monte Carlo Ballet to the Teatro Romano from Tues till Sun, with two programmes including Roland Petit's Mozart and The Dance. The dance programme also includes performances by the Robert Desrosiers Dance Theatre at the Teatro Nuovo from Wed to Sat. The Teatro Caio Melisso has matinee performances on Tues, Thurs and Sat of Gian Carlo Menotti's production of Le nozze di Figaro. Ends July 14. (6) 3210 288

TANGLEWOOD

Christopher Hogwood conducts the Handel and Haydn Society of Boston in an original-instrument Mozart concert on Wed, with Robert Levin fortepiano soloist. John Nelson conducts the Boston Symphony Orchestra on Fri in Mendelssohn, Mozart and Beethoven, with Joshua Bell violin soloist. Seiji Ozawa conducts a concert performance of Idomeneo on Sat, and Nelson returns on Sun with Imogen Cooper as piano soloist. Ends Sep 1. (413) 637 1600

VERONA

This week's performances are confined to Fri, Sat and Sun. Nabucco (Fri) is conducted by Daniel Oren and staged by Gianfranco de Bosio. Piero Cappuccilli sings the title role and Ghena Dimitrova is Abigaille. Rigoletto (Sat) is conducted by Rico Saccani and staged by Sylvano Bussotti. The title role is sung by Leo Nucci, with Mariella Devia as Gilda and Marcello Giordani as the Duke. The title role in Turandot (Sun) is sung by Grace Bumbry, with Kristian Johannsson as Calaf. The conductor is Daniel Nazareth. Ends Sep 1. (45) 590109

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Challenge of development

MARKETS plus education. These three words encapsulate the message of this year's *World Development Report* from the World Bank. Its theme is the challenge of economic development; its aim, to distil the lessons of 40 years. These years have seen heartening successes, notably in East Asia, and horrible failures, above all in Sub-Saharan Africa. They have also been years of learning-by-doing, as a *result of which thinking on* development has undergone a sea change, towards acceptance of "market-friendly" development policies.

"New ideas," states the report, "stress prices as signals; trade and competition as links to technological progress; and effective government as a scarce resource to be employed sparingly and only where most needed."

The report's recommended list of areas for government action is not undemanding: it should maintain law and order, provide public goods, invest in human capital, construct and maintain the physical infrastructure, and protect the environment. Meanwhile, it must – no small task this – control itself, for if markets fail, so too do governments.

Where governments get the combination of intervention with *laissez faire right*, the results can be startling. Countries with low levels of policy distortion and a high level of education registered growth of Gross Domestic Product of 5.5 per cent a year between 1965 and 1987; those with low distortion but a low education level managed only 3.8 per cent, while those that combined high distortions with low education managed only 3.1 per cent a year. Similarly, rates of economic return on World Bank projects are at least one and a half times higher under undistorting economic policies than under distorting policies.

Huge difference

It is not just that there are right and wrong approaches to economic development, but that they make a huge difference. Between 1980 and 1989, within the same global economic environment, east Asian developing countries managed growth of GDP per head of 6.2 per cent a year, while those in *Latin America and the Caribbean* experienced a dismal decline of 0.4 per cent a year, and those of sub-Saharan Africa a still more dismal 1.2 per cent a year. In 1960, Japan had a lower real income per head than Argentina or Mexico; the Republic of Korea a lower one than Zimbabwe, Ghana, or Sri Lanka.

What is to be done to ensure that good performance *becomes the norm? On this,* the report is to be commended for its robustness in criticising governments for corruption, inefficiency and waste, the latter perfectly symbolised by the spending of $170bn a year on defence, more than three times total aid transfers from rich countries.

Without competent and dis*interested government, exter*nal assistance for development amounts to little more than pouring water on to the sand. The existence of such government must be an explicit condition for external support. But conditionality should not be overly intrusive. Experience does not demonstrate that democracy, however desirable in itself, is unambiguously good for economic growth.

Successful reform

From the analysis of the report's list of seven conditions for successful economic reform, two points emerge: first, there is no point in supporting a reform effort that is lacking in essential respects; second, a reform cannot simply be imposed from outside. The implication is that assistance should be selective. If a country does not show the commit*ment it takes to do the job*, it should be left to stew.

Yet industrial countries have more to do than preach at developing countries. For one thing, the debris of the debt crisis needs to be finally removed; for another, the collapse of private lending to most developing countries has increased the need for official flows.

But most important of all, the industrial countries must maintain an open, international economy, in their own *interests as well as in that* of developing countries.

No fewer than 45 countries have initiated unilateral trade liberalisation since the start of the Uruguay Round. Yet this unique opportunity to create the global system of liberal trade that the industrial countries have been preaching for decades is on the verge of foundering.

And on what is it foundering? On the desire of the industrial countries – notably the European Community – to go *on pouring tens of billions of* dollars on farm programmes that do not work. That this was not a focal issue in the recent meeting of the heads of government of the European Community is a scandal rivalling any of those documented in this year's World Development Report.

A scandal, not a crisis

FIRST, some perspective. The closure of the Bank of Credit *and Commerce International is* undoubtedly the result of a very serious banking scandal. But it does not represent a great banking crisis, in the sense that the collapse poses any kind of systemic threat to the financial system. BCCI has for years been the subject of suspicion and distrust in the international banking market, and as a result its interbank and market exposure is limited. The UK clearing banks face potentially painful calls on the deposit protection fund, but nothing worse than that.

But for thousands of depositors, the news is very serious. They face several months in which they will have no access to their funds, as well as considerable uncertainty about the scale of their potential losses.

How was it possible for a bank with such a dubious reputation in financial circles and with known criminal connections to continue to operate freely for so long? BCCI was not well capitalised: its capital was rather below the required Basle ratios. Why was it not brought to book sooner?

No clear evidence

The official answer is that the Bank of England and regulators in other areas of BCCI's operations have been keeping its affairs under close scrutiny for many years. Since 1988, an ad hoc college of international regulators has met regularly to exchange information about its affairs. They had reason to be suspicious, but until very recently they had no clear evidence of the type required to take action under UK banking legislation.

Regulators always have to face a conflict of interest between existing depositors in a bank, and potential future customers. If they move to protect the latter, they can damage the interests of the former: red flags hung out over a bank lead to runs on the cash desk.

In this case, the regulators drew comfort from the exis*tence of a very wealthy share*holder, who seemed willing to plug holes in the balance sheet. Until the disaster struck, they were working towards a reorganisation which would have put "fit and proper" people in charge, and built a protective fence around its UK capital.

But now that strategy has failed, and there are some tough questions to answer. In the first place, there seems to be a conflict between the Bank of England, which says the bank was closed because of accounting fraud, and the Luxembourg authorities, which have been talking about the bank being brought down by enormous operating losses. If the latter is the case, there would be less excuse for failing to spot the trouble.

Smoking gun

Unrecorded deposits are by their nature difficult to identify. But this fraud was being committed on a large scale over several years. It is hard to think that it could have been the work of one crooked individual. Should the Bank of England really have waited until it found a smoking gun before it intervened? Could BCCI's operating problems have been signalled more clearly than through an obscure footnote in the accounts? Is it right to rely on auditing firms to gather the financial details, or should the Bank – like regulators in the US – have its own team of inspectors?

The issue that will most need debating in the coming months is about the quality and depth of bank audits. In the meantime, the UK clearing banks have an opportunity to earn themselves some badly needed public relations points. With a little boldness and imagination, they could help to ease the problems of BCCI's sound customers. They should do whatever they can.

David Lascelles and **Richard Donkin** examine the complex circumstances that finally led to the worldwide closure of BCCI

The bank that liked to say yes

"I didn't sleep particularly well that night," recalls Mr Eddie George, the deputy governor of the Bank of England. It was Thursday June 27, and he had taken home with him to read a thick report by Price Waterhouse on BCCI.

It was a devastating document which showed that huge losses at BCCI had been systematically concealed for many years, using virtually every accounting trick in the book: fictitious deposits and loans, unrecorded transactions, falsified records. It was also clear that this could only have been done as a result of a concerted plan by some top officials at the bank.

The report had been commissioned following a tip-off in March from BCCI management that unrecorded deposits had been found. These are a sure sign to banking supervisors that *a bank is trying to conceal losses. The* Price Waterhouse report showed that BCCI had effectively been running a "bank within a bank" whose purpose was to use fraudulent tricks to preserve a sound and healthy appearance for the bank as a whole.

Mr George immediately summoned a crisis meeting for the following Tuesday of the banking authorities from the six other main countries in which BCCI's complex web of businesses operated: the US, Luxembourg, France, Spain, the Cayman Islands and Switzerland. Officials spent nearly the whole of that day at the Bank of England in urgent discussion.

One option was to go straight to Sheikh Zayed bin Sultan al-Nahyan of Abu Dhabi, BCCI's 77 per cent shareholder, and ask him to bail it out. But that was thought unrealistic in the circumstances. So the decision was taken to close BCCI down. In only three days, the banking authorities organised the worldwide swoop which was timed for 1pm, London time, last Friday.

Ironically, BCCI had just been in the process of reorganising itself under pressure from the Luxembourg authorities who were worried about its earlier losses and its well-publicised links with criminals. As part of that exercise, Sheikh Zayed might have injected more capital into the group to boost its balance sheet. But an important part of that exercise required the Bank of England to authorise a new UK subsidiary, and that was plainly not on with a fraud investigation under way.

However, the fact of this planned reorganisation may be exploited by BCCI's owners in the coming weeks to level accusations against the regulators that they acted precipitately. But the banking authorities are under equal pressure to explain why they did not act sooner. How was it possible to get away with such an elaborate fraud for what Mr Robin Leigh-Pemberton, the governor of the Bank of England, described as "a period of several years"? BCCI's shady past, as evidenced by its conviction for drug money laundering and its known connection with deposed General Manuel Noriega of Panama all affronted the regulatory requirement that the owners and managers of a bank in the UK be "fit and proper".

The official response is that evidence of wrongdoing within a supervisor's jurisdiction is needed before action can be taken. And in the UK's case, that did not happen until the Price Waterhouse report landed. In the meantime, Sheikh Zayed had seemed willing to pour large sums of money into BCCI to keep it afloat.

About a year ago senior a official at the Serious Fraud Office – which is now investigating BCCI – was asked: "Why don't you look at BCCI?" He replied: "Because *no-one has made* any complaint." The SFO need only have visited some of the bank's staff after it announced a crop of redundancies last summer for pointers to numerous corrupt and fraudulent practices within the bank.

The most obvious sign was the

The money men: clockwise, BCCI founder Agha Hasan Abedi, Eddie George, the deputy governor of the Bank of England and Sheikh Zayed bin Sultan al-Nahyan of Abu Dhabi

obscure corporate structure mapped out by its founder Mr Agha Hasan Abedi, a man who combined banking know-how with an almost legendary ability to attract influential figures.

Its main operations were based in Luxembourg and the Cayman Islands, two financial centres with no central bank and only limited regulatory capacity. Other businesses were sprinkled round 66 countries. This meant that BCCI had no lender of last resort to bail it out, though its Arab shareholders effectively filled this role. It also had no overall competent supervisory authority, which is why central *banks of the countries where it had* its largest presence formed a "college" of regulators in 1988.

Even they, however, could not get inside the bank. Many questionable transactions were hidden in its Grand Cayman offices where company law is designed to keep prying eyes away. Dozens of Pakistani bankers staffed the Grand Cayman offices, but they were rarely seen. A businessman on the island said: "I sometimes wondered where they went. We used to joke they had tunnels, they were so seldom seen."

In fact BCCI had thousands of loyal *staff who would work long hours for* rates of pay much lower than those paid by other banks. This was because BCCI had given them their break into a career in finance; family connections were often important in securing the jobs. One striking feature of those who were convicted last *year in the US of laundering $32m of* drug money through the bank was that they carried out the transactions on behalf of the bank as part of their day-to-day work and would not take proffered bribes.

The rank and file bank workers, who numbered 14,000 until the bank began a rationalisation programme after incurring heavy losses last year,

About a year ago a senior official at the Serious Fraud Office – which is now investigating BCCI – was asked: "Why don't you look at BCCI?" He replied: "Because no-one has made any complaint"

were rarely allowed a glimpse of wider banking policies. Middle managers, however, sometimes became aware of some of the illegal practices in which BCCI indulged.

One of the "services" offered to businessmen with relatives abroad, which was recalled by a former executive in one of the London branches, was to help some businessmen evade their VAT returns and the Inland Revenue.

He said: "The businessmen would deposit 'black money' that *did not go* in their VAT records with the bank in the name of one of their relatives in abroad. In return the bank would extend to them a loan of the same sum, charging one per cent of the amount as its fee. Because non-residents do not pay UK tax, the system also enabled them to get out of paying composite rate tax."

The former executive added: "It was easy to pick out the transactions because there were always matching loans against the deposits." The bank had thousands of UK-based businessmen although it is not clear how *many participated in the alleged tax*-avoidance scheme.

Another executive recalled how he transformed the accounts in his bank for the benefit of the auditors. "They never saw what was really happening," he said.

Until 1987, when BCCI bowed to pressure to engage Price Waterhouse as its sole auditors, the bank was able to obscure the full picture of its worldwide operations by engaging different auditors for its two principal banking subsidiaries. Ernst and Whinney carried out the audit of BCCI SA in Luxembourg and Price Waterhouse *audited BCCI in Grand Cayman.*

One of the most serious obstacles put in front of the firms was BCCI's refusal to let either firm engage Urdu speakers as inspectors. Urdu is the main language of Pakistan and many of the most sensitive and confidential internal memos among the most senior management – almost entirely Pakistani – were written in Urdu.

BCCI's business had two main foundations – the financing of international trade and the establishment of a large deposit base. It also made a foray into options trading which proved disastrous, making a $280m loss between 1984 and 1986. It lost another $52m in securities trading in 1987.

Its deposit base, it now seems, was crucial if the bank was to carry out a Ponzi-type fraud in which new depositors' money is diverted to pay off the old or to cover losses. The success of such a fraud depended very heavily, however, on the ability of the bank to move funds between its affiliates and subsidiaries.

BCCI's 1988 accounts revealed $152m of unexplained intra-group fee income. While BCCI paid out $76m in service fees to affiliates, BCCI SA received $76m in service fees from its affiliates. Indeed BCCI SA's net income figure of $5.2m relied heavily on these services supplied by affili*ates. Without them it would have* made a $71m loss.

In spite of never paying a cash dividend to its shareholders up to 1988, BCCI made $83m in donations to unnamed organisations and £26m to a charitable organisation linked to the bank over seven years to 1987.

One of the beneficiaries of Mr Abedi's characteristic generosity was a pet project of former US president Jimmy Carter to help Third World farmers, called Global 2,000. Mr Carter and Mr Abedi were joint chairmen.

While every member of the BCCI staff was encouraged to bring in *deposits, the area where the bank* excelled was international finance. By spreading 75 per cent of its operations across the Third World, BCCI had branches in places where other banks seldom went.

Bankers were struck by the ease with which BCCI could get money out of Nigeria, and by the success of its 40 per cent-owed Nigerian affiliate. The bank had a policy of converting the accounts of its affiliates, sometimes using artificial exchange rates to overstate their success. This manipulation meant that BCCI Nigeria's balance sheet was boosted by $165m in 1986, *and BCCI Egypt's by $88m in* 1988, according to a detailed analysis of the bank completed within a UK-based finance house.

In addition to these tactics the bank became involved in a little-publicised fraud in Kenya in November 1987 in which it was fined twice the amount which was imposed on it for drug money laundering in the Florida drugs laundering case; in addition to several officers BCCI's two banking subsidiaries were also convicted. In the Nairobi case, the branch manager and two senior officers were arrested on charges of failing to remit $34m of *foreign exchange earnings from coffee* exports. BCCI was fined $30m.

Massive coffee transactions is also at the heart of more recent investigations carried out in the US on behalf of syndicates managed by the R.W Sturge agency at Lloyd's insurance market which refused to pay out on an insurance claim by a coffee importer called Mr Munther Ismael Bilbesi. BCCI set up a whole branch in Boca Raton mainly to handle his accounts. He is now being investigated in the US for smuggling $35m worth of coffee into the US. He and Sturge are now suing each other.

The full of extent of BCCI's illegal activities may take months to uncover but sufficient question marks have surrounded the bank for so many years that it seems surprising *that it has taken the Bank of England* and the SFO so long to get their act together. Had it not been for the report that Price Waterhouse delivered just over a week ago BCCI could still have been on its way to a UK incorporation for its European activities.

France shuts next month

■ *How much longer can the* French business world afford the luxury of going on holiday for the entire month of August? People are beginning to talk.

An internal paper by the Patronat, France's equivalent of the Confederation of British Industry, warns that on past form, the summer holidays will this year cost France a 30 per cent month on month decline in industrial output and a 23 per cent drop in exports from July to August.

According to a Patronat poll of 4,350 companies, more than 50 per cent of the workforce will take the whole of next month off. As a result, just over 40 per cent of French companies will close 80 per cent of their activities for July and August."Weakened by a chronic trade deficit, France pulls down the curtains despite everything," mourns the employers' organisation.

Part of the fault lies with the education system, which gives pupils unusually long summer holidays and insists *that all regions must take their* school holidays at the same time – this year, from July 6 to September 10. Part also lies with general force of habit.

However, it looks as if the Patronat's preaching has fallen on deaf ears. Some 80 per cent of the companies it interviewed have no intention of changing their time-off arrangements.

No spark

■ What's the difference between an electrical engineer and a mechanical engineer? More than meets the eye, judging by the upstart Institution of Electrical Engineers' puzzling decision to pull the plug on a merger with the older Institution of Mechanical Engineers.

Given that the country's mechanics need electricity to make their inventions work *these days, the old divisions* between the two trades no longer make sense. A merger of the IMechE and the IEE would have created a "super-institution" of 200,000 members and gone some way to ending the fragmentation bedevilling British engineering's profession.

The wedding should have taken place next year. But, after a day-long meeting on Thursday the Electricals broke off the engagement. The word from behind the fuse box is that there is no ill-will. It is just that some Electricals felt their discipline was somewhat remote from that of the Mechanicals and anyway they needed more time to enjoy their recent merger with the much smaller Institution of Manufacturing Engineers. The fact that they could not agree a name did not enter into it.

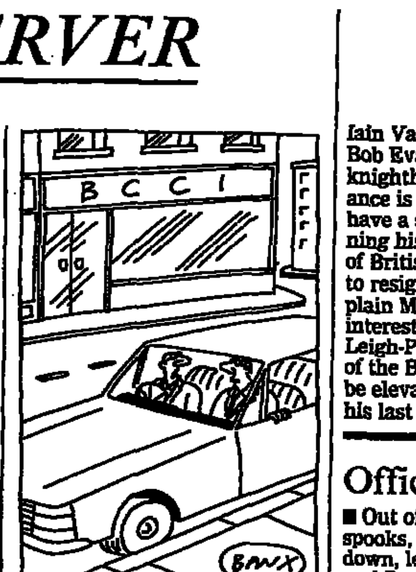
OBSERVER

Siemens'new pro

■ Heinrich von Pierer, Siemens' new heir apparent, must have been in his element yesterday. For the former Bavarian junior tennis champion, the all-German Wimbledon men's final was a welcome distraction from contemplating the task ahead.

When Karlheinz Kaske, 63, steps down as chief executive of the big electrical and electronics group – probably in October 1992 – the 50-year-old von Pierer, who has both a legal and economic education, will find the pace even faster. He was named last week as deputy chief executive, a post only filled when the top job *is due to fall vacant.*

Previously in charge of Siemens' successful power station activities, von Pierer's relative youth obviously counted heavily in his choice. The other two candidates are five years older. Von Pierer, who looks both athletic and studious and has a refreshingly open manner, was seen by the



"Right Hargreaves, when I say 'swoop', swoop."

board as the man to head Siemens into the next century.

Under the silver-haired, rubicund Kaske, Siemens has increased its global presence dramatically and is enjoying a steep rise in new orders. But *it still faces tough challenges*, notably the elimination of losses at Nixdorf computers and in semi-conductors.

Dealing with these tasks will face von Pierer with an equally weighty challenge - finding time to forsake the office for the tennis court.

The K Factor

■ Suggestions that the British Government is going to stop handing out gongs to chairman of ex-nationalised industries, *who pay themselves too much*, make sense. Knighthoods and peerages are an honourable way of rewarding underpaid public servants without antagonising the workforce or customers. Now that the privatised bosses are getting the rate for the job, they can afford to do without this perk.

The predecessors of BT's Iain Vallance and British Gas's Bob Evans, both collected knighthoods, and while Vallance is still young enough to have a second chance of winning *his spurs, the chairman* of British Gas may well have to resign himself to remaining plain Mr Evans. Perhaps more interesting is whether Robin Leigh-Pemberton, the governor of the Bank of England, will be elevated to the peerage like his last two predecessors?

Officers only

■ Out of work soldiers and spooks, take note. Paddy Ashdown, leader of Britain's Liberal Democrats, is looking for some extra firepower in the run-up to the next general election. The party wants to hire a "political warfare officer".

Ashdown, once an officer in Britain's *special forces, is* clearly determined that his party lives up to the reputation for robust campaigning it inherited from the old Liberals. The new recruit will be expected to concentrate on attacking Labour and the Tory policies, while defending his party's flank from return fire.

The salary - £10,000 a year - is distinctly modest, but presumably the uniform is free.

Rubbish

■ Memo to keen young analysts monitoring the ups and downs of Robert Maxwell's media empire. Under no circumstances, repeat no circumstance, should a circular carry *the words"Can't recommend* a purchase." The publisher does not like the sound of the acronym and has reported UBS Phillips & Drew to the Securities and Futures Authority. Although the SFA is unlikely to take any action, P and D has issued an apology, and the analyst has gone to work for another firm.

Signs of maturity in the ANC

The movement is more united but still faces serious political challenges, writes Patti Waldmeir

After five almost sleepless days and nights of debate and dissent, reconciliation and jubilation, the African National Congress (ANC) has found a new centre of gravity.

Liberals in the ANC still disagree with the communists, pragmatists have no time for the ideologues, militarists and peacemakers observe an uneasy truce. But South Africa's leading liberation movement has emerged more united than at any time since it was legalised 17 months ago; the message from hawks and doves alike is that talks on a post-apartheid constitution should proceed, and quickly.

With any luck, the national conference which ended just before dawn yesterday – the most important in the ANC's history – will help clear the path to the new South Africa. With the government demonstrating its own will to press ahead – on Saturday, Pretoria released 19 of the most controversial ANC political prisoners, while Mr F.W. de Klerk, the president, finally heeded ANC demands that he express sympathy with victims of township violence – it seems clear that the process of political change has gained new momentum.

Not a moment too soon. For the past 11 months, since the so-called Pretoria minute on the terms for constitutional talks was signed last August, the road to a post-apartheid future has seemed almost impassable. The two sides have bickered endlessly over the details of that agreement, which provided that all political prisoners be released and exiles allowed to return in exchange for the ANC suspending armed struggle. Township violence, which has killed nearly 2,000 people since the accord was signed, has bred mistrust and anger. Threats issued forth from the ANC, and Pretoria dug in its heels.

The just-ended national conference should give the ANC the will and the means to expedite progress. Conference expressed its support for negotiation by electing a new top leadership which has a proven commitment to bargain rather than battle. The five most senior officials – Mr Nelson Mandela, 72, the president; his deputy, Mr Walter Sisulu, 79; the national chairman, Mr Oliver Tambo, 73; Mr Cyril Ramaphosa, 38, the general secretary; and Mr Jacob Zuma, 49, his deputy – are all moderates in ANC terms.

Mr Ramaphosa, general-secretary of the National Union of Mineworkers, brings to the top team the skills gained in nearly a decade of union and local government negotiations. He represents a generation of younger leaders who learned their politics in township streets rather than in eastern bloc universities, where many elderly former exiles were educated. These so-called "internal" leaders – many of whom were elected to a new expanded national executive committee – are popular at the grassroots, where elderly patricians like Mr Sisulu are revered, but sometimes resented for acting autocratically.

The new 90 member national executive brings together ANC leaders with differing experiences of the liberation struggle: younger activists and trade unionists who fought the battle to render townships ungovernable; elderly veterans of decades in jail; and exiles who have spent as many as 30 years away from home. The first group, which led the struggle in South Africa throughout the 1980s, have been largely ignored since the exiled leadership returned a year ago; they return to prominence in the new executive, with more than half of the exiles losing their posts.

Overall, the executive is likely to prove more militant than the top five office bearers: perhaps half of the 50 directly-elected members are communists (many refuse to reveal this affiliation, though others openly proclaim it); Mr Chris Hani (chief of staff of the ANC military wing) and Mr Joe Slovo, both prominent communists, scored first and third in the ballot, and Stalinist hardliner Harry Gwala eighth. Romantic revolutionaries like Mr Ronnie Kasrils, who ranked seventh, will continue to feed militant sentiment in the townships: on Saturday, Mr Kasrils urged ANC supporters to use home-made weapons in township battles; "there is a role for rudimentary weaponry," he said, adding "Nicaragua and Salvador have shown this".

But the complexion of the new national executive, which will meet only every two to three months, is less important than that of a 26-member "working committee" which will be a kind of politburo. The top five ANC leaders, plus the national treasurer, are automatically members; 20 others will be elected shortly by the new executive.

ANC president Nelson Mandela and his wife Winnie

The elections, themselves, will have served to strengthen the ANC. In a country where blacks have traditionally had no say over the most insignificant or the most momentous of decisions about their future, the importance of democratic elections cannot be overestimated. ANC supporters have complained that their leaders acted without consulting them, or even informing them of deals made with the government. Conference guaranteed the ANC leadership a democratic legitimacy it had lacked, and gave delegates (themselves elected by local branches) a chance to make ANC policy their own by debating it and challenging it from the floor. By the end of a 21-hour session at dawn on Sunday, delegates had given the leadership the confidence to proceed with negotiations, and had elected individuals with the skills to pursue talks successfully. The ANC will henceforth field a sharper, shrewder and more secure team against Pretoria.

The message from hawks and doves alike is that talks on a post-apartheid constitution should proceed, and quickly

But despite the unifying dynamic of the conference, the ANC's weaknesses are as prominent as ever: it has few strategic weapons to wield against Pretoria; its organisation is poor and membership low. In the words of a confidential internal report presented to conference: "We lack enterprise, creativity and initiative. We appear very happy to remain pigeon-holed within the confines of populist rhetoric and cliches... Clearly we have not utilised our full potential to mobilise millions of our people into effective action."

The ANC's alliance with the South African Communist party, which is seriously limiting recruitment in the white, coloured and Indian communities, was actively debated; but the problem of deciding the character of the ANC – communist or social democrat – was left for another day. Increasingly, ordinary South Africans are asking not only for political change, but for a clear vision from the ANC of socio-economic change; but the conference failed to look beyond apartheid. It focused on the near term struggle for power.

Yet here, too, the result was inconclusive. A commission of delegates charged with deciding ANC strategy and tactics resolved to continue the same tired old methods which have left the initiative in the hands of the government throughout the talks so far. "Mass action" is to be intensified; but the ANC promptly demonstrated the shortcomings of this tool by staging an unsuccessful post-conference rally in Durban.

The ANC's other three "pillars of struggle" – armed action, underground activities, and sanctions – are also ineffective. *Umkhonto we Sizwe*, the military wing, will not be disbanded (a fact which annoys Pretoria); but resuming armed struggle is out of the question. The ANC underground has been successfully infiltrated by security agents; and international sanctions are crumbling. Conference resolved to be more flexible on the question of phasing out sanctions; but this action should have been taken when first proposed six months ago. Now it is almost certain to be overtaken by events.

Unless these faults can be remedied, the ANC could find itself negotiating from a position of relative weakness.

But certainly, the will to negotiate is there – once steps have been taken to end the violence which has plagued black townships, and remaining political prisoners have been released and exiles allowed to return. Clearing away these remaining obstacles should not prove impossible: a church-sponsored forum on violence has been charged with drawing up a code of conduct for the security forces and political parties, which could form the basis for agreement; and the two sides have either agreed or are close to agreeing mechanisms for releasing remaining prisoners and repatriating exiles. The ANC insists that repressive security legislation remaining on the books – for example, detention without trial – should be repealed.

It is not clear when compromise can be reached on the last issue. But the government believes an all-party conference can be called by the end of the year – ANC leaders believe it may be sooner – with the task of agreeing principles on a new constitution, arrangements for governing South Africa during the transition (the ANC is demanding an interim government, and the government is looking at various power-sharing arrangements), and a mechanism for actually drawing up the constitution. The agenda remains long, and obstacles numerous; but as Mr Mandela said in his closing address to conference, the road to Union Buildings and Tuynhuys (the seats of government) "has become all the shorter".

Samuel Brittan

Federation: bottom-up better than top-down

How is it possible to favour movements towards federation or confederation in western Europe, while also supporting the efforts of republics such as Slovenia and Croatia to break away from the Yugoslav federation, or of other states to leave the Soviet Union?

There is no difficulty whatever, except for those who are so besotted with the idea that federations are in themselves either good or bad that they ignore the interests of the men and women who live in them.

The key difference, of course, is that federations such as the Soviet Union or Yugoslavia are imposed top-down on their members. Indeed, they are usually disintegrating old-fashioned empires whose rulers are trying to hold them together by force. On the other hand, the moves to a united Europe are freely undertaken by European Community members. Any federation or lesser degree of union which results will thus be constructed bottom upwards. (The pre-1918 Habsburg empire is a rare example of a top-down federation which *might* have been transformed into a bottom-up one if it had had the chance.)

British ministers speak of their opposition to an "imposed" single currency. They are, of course, knocking down a straw man, as there is no way of imposing such a currency against the wishes of the parliament and government of the day, and thus ultimately the electorate. But, if opposing something which could never happen helps John Major, the UK prime minister, to carry the Tory party as he edges closer to monetary union, why should one raise pedantic objections?

There is, however, such a thing as an imposed federation, of which the Soviet Union and Yugoslavia are examples; but they are not the only ones. Retreating western powers have tried to impose federations on their former colonies, examples being the Rhodesian and Caribbean federations, which dissolved more or less peacefully. The foreign offices of the west have a penchant for top-down imposed unions. Hence, their support of Yugoslavia's communist leaders until almost the other day and their equivocation towards the independence movements in the Baltic and the Caucasus.

Foreign secretaries should not, however, be allowed to claim that a republic such as Slovenia is too small to manage on its own. It is larger than Luxembourg which, despite its championing of European integration, remains an independent state with an economic growth rate higher than Germany's. Daniel Gros of the Brussels Centre for European Studies has estimated that Slovenia and Croatia already conduct about two-thirds of their foreign trade with the EC – a similar proportion to that of neighbouring Austria. They could easily link up with the EC if they were allowed to do so, and indeed tie their currencies directly or indirectly to the Ecu or D-Mark.

The foreign offices of the west have a penchant for top-down imposed unions

If the ultimate political reality is, as Margaret Thatcher rightly said, individuals and their families, then the same individuals should have the right to decide with which other individuals they wish to associate politically. Indeed, many of the activities involved in constructing a federation are similar to those involved in devising secession. They include creating new currencies, erecting customs unions, hauling up the flag and – alas also – mobilising citizens into armies. Both western European federalists and central European separatists set too much store by these toys, but they are neither better nor worse at one level or the other.

The big snag with separatism – which is also a problem for federations which respect their subordinate units – is that nations and ethnic groups are not neatly parcelled out on the ground. Obvious topical examples are the Armenian enclave of Nagorno-Karabakh inside Azerbaijan and the Krajina area of Croatia, which is mainly inhabited by Serbs.

There is no neat answer to such problems, which helped to overturn the Versailles settlement after 1919. But that is no excuse for suppressing independence movements in cases where they do not arise. They should not, for instance, be an excuse for refusing independence to Slovenia, a unified area without significant minority problems.

Even in the more intractable cases, there is something that a market liberal can contribute. It is because the central authority takes on so many unnecessary economic functions that it becomes a vital matter for people's living standards, job prospects and social status, who is in control. Where private property and market relations predominate, people can make their own way and take a more relaxed attitude to the ethnic balance of their political units.

I am tempted to favour a European federal state – and eventually a world government – but of a minimal *laissez-faire* kind. A European federal state should ultimately be concerned with currency, foreign policy, common defence, and certain matters of law and order. This does not rule out more active government, but, at a much lower level, where it can differ from area to area and take account of local needs and beliefs. The social side – health, education, etc – could be delegated to these levels.

We can welcome a single currency without welcoming the Social Charter which is a device for killing jobs and penalising the weakest regions of a community, rather than helping them. If some farm protection is desirable for environmental reasons or inescapable for political ones, it is best carried out at the lowest level possible – eg, Wales or Slovenia – but on no account at a European level, where the costs and conflicts are maximised and benefits minimised.

No doubt, this minimalist federal vision differs from that now in vogue in Brussels. But it is never too late to reform.

LETTERS

No starry view of an MBA

From Mr Onesimo Alvarez-Moro.

Sir, A phenomenon which I find very amusing is to see a bunch of grown men fall over themselves in an attempt to defend their professions or career choices.

We are currently seeing this in the debate over the value or otherwise of the MBA ("Cold climate continues for MBA graduates", June 26).

Having gone through an MBA long enough ago to have lost the stars in my eyes, I remain happy that I went through the experience. Nevertheless, I feel its primary usefulness is that it teaches techniques which can be applied during later working life.

However, I do not believe that an MBA teaches more than could be picked up on the job by bright individuals, even within the time frame of what it would have taken to complete a normal MBA course.

Consequently, maybe we should be encouraging people who are not very bright and who need to be trained up, to apply for a place on an MBA course, and let the bright ones get on with the job.

Onesimo Alvarez-Moro,
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2 puerta 6, Madrid, Spain

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

The burden that will hit quality of youth training

From Mr Colin Stanley.

Sir, John Gapper and Lisa Wood ("Training flagship sails into stormy waters", July 3) are absolutely correct. Youth training is once again under threat. That threat stems from both the recession, which is clearly causing our 3,000 member companies to severely reduce their intake of trainees, and the interface between Tecs and industry training organisations such as our own.

The British Printing Industries Federation, which pioneered standards-based modular training in the 1980s, is an A-graded, non-statutory training organisation, well regarded by government for its quality of training. We now face the complication and overhead burden of negotiating, not with one national provider as previously, but with 82 Tecs at different rates, in different manners and different ways for the same product.

The result will be both that in 1992 we shall cease to be a managing agent, and that there will be a reduction in the quality and quantity of youth training in this industry. Not the outcome that Michael Howard wanted.

Colin Stanley,
director general,
British Printing Industries Federation,
11 Bedford Row, London WC1

The real article by which the UK stands apart on border control

From Mr Robert Ruggieri.

Sir, In your report about the negotiation for an EC convention on external frontiers (June 27) you stated that the UK is opposed to loosening internal border controls. You report that the UK disagrees with the other member states that "article 8A of the Single European Act covering the free movement of people inside the EC from 1993" will permit EC nationals to move freely within the EC after passing external border checks. I assume you mean article 8A of the Treaty of Rome, which states:

"The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty."

This article to the treaty was added by article 13 of the Single European Act.

Robert Ruggieri,
Rogers & Wells,
1737 H Street NW,
Washington DC, US

Who should qualify for pay comparability?

From Mr David Palmer.

Sir, So the Confederation of British Industry ("CBI defends large pay rises for managers", June 27) thinks that too much attention has been paid to the scale of recent top pay increases rather than international comparative salary levels.

Funny how this seems to apply only to company directors but nobody else. It justifies UK directors' pay hikes on the basis "that British directors remained well down the international league of top salaries".

The CBI's John Banham defends the recent 68 per cent rise for Mr John Baker, the chief executive of National Power, by citing figures which show that executives of German power companies will still be earning 60 per cent more then Mr Baker. Why shouldn't the same criteria apply to Mr Baker's workforce?

I note that the unions representing manual power workers have just settled for an 8.9 per cent pay increase. Is the CBI arguing that UK power workers should also have their pay brought more in line with that of their German counterparts? If not, why not? Perhaps Mr Banham would care to explain.

David Palmer,
3 Norman Avenue,
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London N22

Citizens Charter: the people factor and procedures for disputes

From Mr T J Head.

Sir, It was a disappointment to find that Mr Maurice Healy (Personal View, July 3) omitted the one crucial issue in his discussion of the Citizens Charter, namely the people who work in the public sector, the culture in which they operate and their attitudes.

New decision rules, to determine levels of service and the definition of citizen groupings as customers, will remain sterile, without a cultural change among people providing public services.

The need is to refocus attention away from the internal procedures of their jobs towards understanding the external demands of customers. Individual measures of performance are the key.

That change is possible. Many people in the public sector have a genuine sense of serving the public; if given the right practices they could deliver the charter. Countless organisations have gained recognition for the quality of service they offer, through people. The route is the same for the public sector.

T J Head,
Human Resource Development,
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Lichfield, Staffordshire

From R J M Morgan.

Sir, Maurice Healy summarises very clearly the desiderata that will be fundamental to the effective working of any Citizens Charter.

His article refers to the need to give people specific rights to compensation and for a simple mechanism to stop disputes festering. Mr Healy does not, however, bring forward ideas about dispute resolution. The following ideas should be considered:

- Existing regulators of public services, such as Oftel and Ofwat, should be more actively involved in dispute resolution. This means not only investigating complaints but dealing with them as honest broker through conciliation before they become disputes.
- Where disputes do arise, they should be referred to independent arbitration under arbitration schemes which, by virtue of their speed, economy, simplicity and finality, provide a genuine alternative to the courts. The Chartered Institute of Arbitrators operates more than 40 such schemes, including schemes for British Telecom, the Post Office, British Rail and the water companies. Undoubtedly, adoption of the Citizens Charter would give rise to the need to consider new schemes and to review the operation of existing ones.

It also goes without saying that it will not be enough for the charter to deal only with services provided by the public sector. To be effective, it must apply equally to privatised industries, both present and future.

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FINANCIAL TIMES
Monday July 8 1991

World Bank report advocates market liberalisation and cuts in military expenditure

Prospects for Third World brighten

By Michael Prowse in Washington

DEVELOPING countries should adopt "market friendly" policies and curb military spending, says the World Bank in a broadly positive assessment of Third World prospects published today.

Higher investment in people – through education and healthcare – could be financed by reducing military spending, which averaged 5 per cent of gross domestic product in the developing world, it says. Resources diverted to wasteful military ends would often be sufficient to double spending on health and education.

The bank says donors should consider linking aid to progress by the recipient country towards reducing its military budget.

The report says the lesson of 40 years of development experience is that markets and governments can play a complementary role in promoting growth. Governments need to invest more heavily in people, but otherwise rely on private enterprise. They should liberalise markets, remove barriers to trade and investment, and adopt prudent macroeconomic policies.

It says the key to "dramatic success" is the synergy between, on the one hand, investments in human resources and physical capital – such as infrastructure – and, on the other, open and competitive markets. A study of bank projects indicated that returns were 50 to 100 per cent higher in relatively undistorted economies.

The bank forecasts real per capita growth of 2.9 per cent a year in developing countries during the 1990s, a sharp improvement on growth of 1.8 per cent in the 1980s. This partly reflects the benefits of recent policy reforms in big debtor countries.

Growth performance, however, is likely to be uneven. Income per capita is set to grow at 5.3 per cent a year in east Asia but at only 0.5 per cent a year in sub-Saharan Africa where the outlook remains "precarious".

The report says industrialised countries can best help the Third World by quickly completing the Uruguay Round trade liberalisation talks. Unrestricted access to industrial country markets would increase developing countries' export earnings by $55bn, as much as they receive in aid.

ANC's new president closes key conference on conciliatory note

Mandela hints at easing sanctions

By Patti Waldmeir in Durban

THE newly elected president of the African National Congress, Mr Nelson Mandela, yesterday closed the most important national conference in the organisation's history on a conciliatory note.

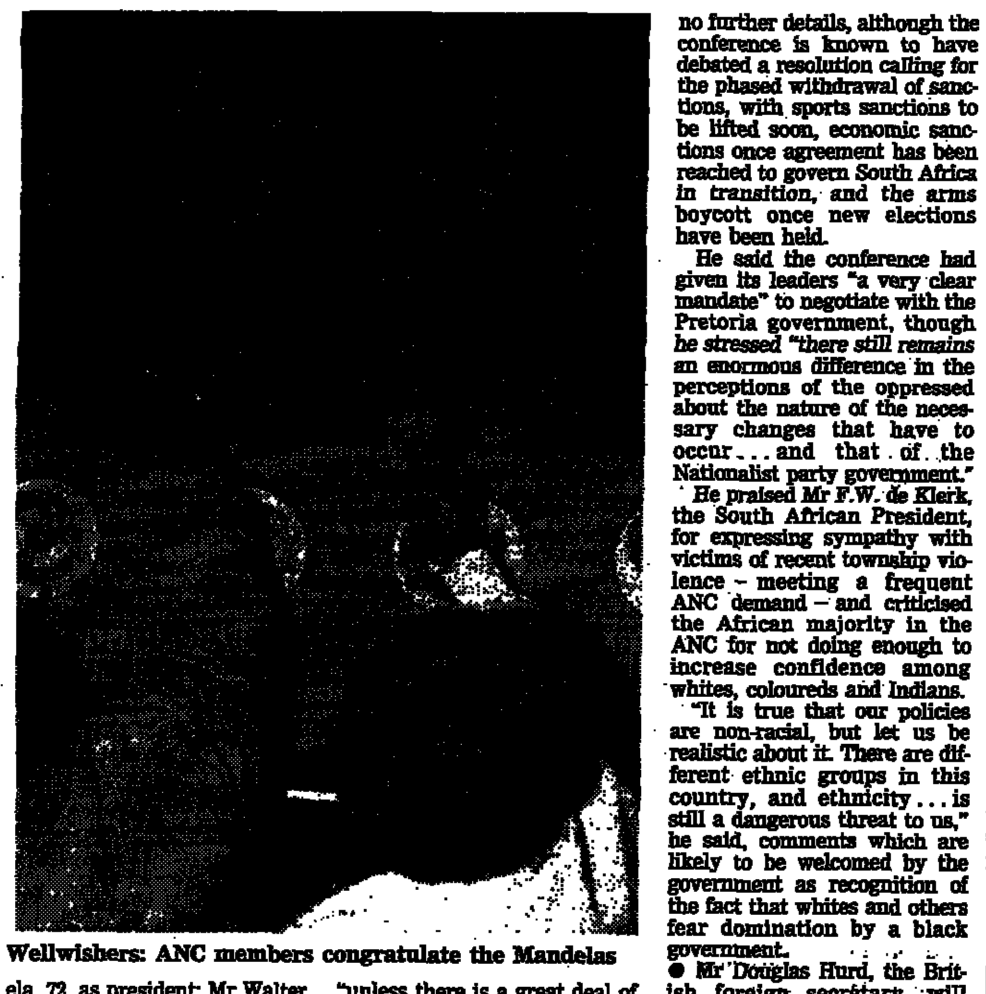
He promised to be flexible on the issue of lifting economic sanctions against South Africa and urged the ANC to do more to assuage the fears of the white, coloured and Indian minorities.

After an all-night session of the conference, the first to be held inside South Africa for more than 30 years, the results were announced of elections to the ANC's new 90-member national executive. About half of the 50 directly elected members of this body are believed to be members of the South African Communist party, including the party's secretary-general, Mr Joe Slovo, who came third in the poll.

Another prominent communist, Mr Chris Hani, chief of staff of Umkhonto we Sizwe, the ANC military wing, came first, although a leading moderate, Mr Thabo Mbeki, took second place, demonstrating the broad political spectrum spanned by the ANC. About half of the incumbent national executive committee failed to win new seats. Only two of those elected are Zulus, reflecting fears among some Zulus that their tribe is under-represented in the ANC.

Mrs Winnie Mandela, Mr Mandela's controversial wife who was recently convicted on four charges of kidnapping and accessory to assault, was placed 26th in the poll, with the votes of nearly half the 2,200 delegates.

The national executive is likely to prove more militant than the top leadership of the ANC, elected on Saturday. Moderates were elected to the top six ANC posts: Mr Mandela, 72, as president; Mr Walter Sisulu, 79, deputy president; Mr Cyril Ramaphosa, 38, secretary-general; Mr Jacob Zuma, 49, deputy secretary-general; Mr Thomas Nkobi, 68, treasurer; and Mr Oliver Tambo, 73, national chairman.



Wellwishers: ANC members congratulate the Mandelas

In an address delivered just before dawn yesterday morning, Mr Mandela said the ANC wanted sanctions to be maintained, but he added that "unless there is a great deal of flexibility and imagination [on this issue] we will be left holding a shell and nothing else."

He acknowledged the US sanctions legislation would soon be repealed, and that other sanctions would soon disappear with or without ANC approval. "The flexibility we want exercised is intended to ensure that this weapon is kept in our hands," he said. He gave no further details, although the conference is known to have debated a resolution calling for the phased withdrawal of sanctions, with sports sanctions to be lifted soon, economic sanctions once agreement has been reached to govern South Africa in transition, and the arms boycott once new elections have been held.

He said the conference had given its leaders "a very clear mandate" to negotiate with the Pretoria government, though he stressed "there still remains an enormous difference in the perceptions of the oppressed about the nature of the necessary changes that have to occur ... and that of the Nationalist party government."

He praised Mr F.W. de Klerk, the South African President, for expressing sympathy with victims of recent township violence – meeting a frequent ANC demand – and criticised the African majority in the ANC for not doing enough to increase confidence among whites, coloureds and Indians.

"It is true that our policies are non-racial, but let us be realistic about it. There are different ethnic groups in this country, and ethnicity ... is still a dangerous threat to us," he said, comments which are likely to be welcomed by the government as recognition of the fact that whites and others fear domination by a black government.

● Mr Douglas Hurd, the British foreign secretary, will arrive in South Africa today at the start of a four-day visit, during which he will hold talks with Mr de Klerk and Mr Mandela. He will also meet Mr Clarence Makwetu, leader of the Pan-Africanist Congress and Chief Mangosuthu Buthelezi of the predominantly Zulu Inkatha movement.

Signs of maturity, Page 11.

New effort to find EC accord on investment

By Andrew Hill in Brussels and Richard Waters in London

EUROPEAN Community finance ministers will today come under pressure to reach agreement on the long-delayed investment services directive, which is aimed at allowing investment companies to trade throughout the EC after 1992.

The Netherlands, which took over presidency of the European Community a week ago, will ask ministers to accept the whole of a new compromise text, put together by the Dutch and their presidency predecessors, Luxembourg.

If no agreement is reached, the presidency has warned that it may drop the legislation on the grounds that there is no political will to reach agreement. That could mean further delays for the directive, which was first given a high priority a year ago, by the Italian presidency.

Some member states are already resentful about what they see as Dutch strong-arm tactics, and have complained that the new draft was delivered to them only last Thursday, further increasing the pressure. One national official said the Dutch were "holding a pistol against our heads".

The principal objections to the draft directive have been clear for some time. Broadly, Mediterranean countries such as France, Spain and Italy favour trading on regulated markets only, and strict transparency rules for publication of share transactions. Britain, the Netherlands and Germany, among others, prefer a more liberal approach.

The text of the Netherlands-Luxembourg compromise is said to be close to the previous draft prepared by Luxembourg alone, which bickering ministers passed back to their technical experts in April.

Differences in the text suggest an attempt has been made to accommodate different national preferences, but at the expense of cross-border investment business. For instance, each member state would be allowed to decide for itself what constitutes a properly regulated market. This would mean a stock market recognised in, say, London would not necessarily be recognised in France, and so would only be open to French investors who agreed to have their bargains transacted "off-market".

The biggest difference in approach at today's meeting is that the Dutch will insist that ministers accept the whole package, rather than arguing fruitlessly over individual sections.

Revision list for the Long Vac term

By Anthony Harris

I only meant it as a joke; when there was a report that the prime minister had actually adopted my suggestion of a few weeks ago, and cut over-paid privatised directors out of his Honours List – No Ks for ks – is an irresistible temptation. There are plenty more suggestions where that one came from.

In a normal year this would not be the season to offer suggestions to ministers if they involved anything like work. However both Mr Major and Mr Kinnock have apparently told their teams to cut their hols short and work on through the summer.

My tutors at Cambridge used to make the same suggestion at this time of year when they thought I was slacking. Here, then, is the kind of project and revision list I used to suffer.

Most of it centres round the dreary question which is of obsessive interest to all parties – inflation. We now know the objective. Everybody demands zero inflation. This used to be thought unobtainable but was launched as a serious official objective by Mr Alan Greenspan of the US Fed at a colloquium in the Rocky Mountains two years ago. However, as the US economy sank into recession Mr Greenspan began to hedge.

He redefined zero as a condition where businessmen do not build inflation assumption into their forward planning – which is actually a very good definition of the objective. Since then, however he has begun to talk about quite different subjects.

We British wear our hair shirts with a difference, though. The more we suffer in the struggle, the more insistently we demand total victory. Why settle for mere German virtue? as Professor Tim Congdon enquires in one of his provocative circulars this week. We should lead the European Community, not follow it. All political students seem bound to offer this answer to the inflation question. They should be warned that examiners will want to know whether they really mean it.

That may sound cynical, but history argues for caution. True price stability has never been achieved, except by temporary accident, in the last two millennia, so to adopt it as an operating target is not conservative caution, but almost raffishly experimental.

What history shows is that while inflation can be defeated, it is very hard to stop deflating as you pass zero. The two most recent periods of falling prices – a long one round the turn of the century and a short one centred on 1930 – were marked by sluggish growth or downright depression. Not the sort of history you would want to repeat.

There is a lot to be said, of course, for a low rate of inflation as, Professor Congdon suggests, it would stabilise bond markets – and, though he doesn't mention it, would make reported profit figures more realistic, which might check false bull markets. It would also, he claims, act as a self-policing incomes policy, where the going rate in manufacturing would become zero plus productivity. This must appeal strongly to any Labour shadow with pre-Thatcher memories.

There is a problem, though. The term "productivity" can easily have a perverse meaning in the service industries – less nursing care, for example, or bigger school classes. In real life, pay increases well earned in the factories tend to drive up service prices from health care to haircuts through the normal operation of the labour market.

It may be impossible to squeeze out this kind of "inflation" without keeping growth sluggish for ever. Perhaps the private slogan on zero inflation is that it is better to travel hopefully than to arrive.

We in Britain have a second and discreditable reason for running risks on the deflationary side: perhaps the only safe way to regain our competitiveness (that, is to depreciate serving in real terms) is to let our partners inflate quicker than we do.

This would compensate for our mistake in locking into the ERM at too high a rate without the risk of red ministerial faces, but it is painfully slow. It could take the best part of a decade to correct an over-valuation in single figures.

Ministers and all their shadows should expect much help on this problem from official advisers. The mandarin line at the moment is that growth cannot be achieved by depreciation, full stop – even if the Americans have just demonstrated the opposite or if we did the same in 1982.

This assertion implies either that any nominal exchange rate becomes "right" as soon as you adopt it or that it doesn't matter anyway, or more probably that real exchange rates are like the weather – beyond our control. This is a doctrinaire theory though, not a fact.

One holiday task, therefore, is to sign up some outside advisers with open minds to do some research on how real exchange rates are determined and what their effects are. Mandarin complacency might yet get a puncture, but the mandarins won't now how to mend it.

If we do have to adjust the parity, of course, an effective anti-inflation policy would be more, not less, important; so the second task for the outsiders is to suggest ways of checking other inflation other than banging up interest rates.

Students will get the drift if they prepare answers to the following questions.

1. The government has just doubled the target return on capital for the Post Office; the Post Office has promptly asked for higher rates. How does this differ from a straight forward tax increase in its effect on:-
(a) government revenues
(b) the inflation rate
(c) the opinion polls
2. A privatised industry requires capital and decides to raise it from its customers through higher charges rather than form the capital market. Analyse destructively.
3. (a) The EC has a surplus of carrots. Is this a problem?
(b) Brussels proposes to subsidise carrot exports. Is this an answer?
4. The Duke of Edinburgh proposes the final abolition of mortgage tax relief. Compose speeches to your constituents:
(a) denouncing this threat to core values.
(b) welcoming this measure against house price inflation.
5. Explain the difference, if any, between headline inflation, underlying inflation, core inflation, trade goods inflation, and a bull market. List the circumstances under which you would stress each of the above
(a) in public speeches.
(b) in briefs to your civil servants.

And a final question for the reader: will they ever learn?

Businesses pessimistic about UK recovery

By Peter Marsh

HOPES of an early end to the UK recession have been dampened by publication today of two gloomy surveys of business opinion, which will increase the pressure on the government to cut interest rates.

According to a survey of 1,600 managing directors in industry and services by Dun & Bradstreet, a business information company, the recession is deepening, with companies expecting lower profits, higher unemployment and further cuts in stocks of goods and components over the rest of the year.

The Institute of Directors, which represents many small businesses, said the weak increase in business confidence after the end of the Gulf war had receded. It called for an early cut in base rates, now at 11.5 per cent.

One piece of brighter news for the government came in a survey of manufacturing companies by the West Midlands region of the Chambers of Commerce. This said there were signs that the recession had touched bottom, although confidence remained low.

Mr Norman Lamont, the chancellor of the exchequer, has for several weeks resisted calls for a further reduction in base rates – which were last brought down on May 24, in the fifth cut of half a percentage point this year.

Speculation has mounted that ministers may sanction a further cut this Friday, when the government is expected to announce that inflation, as measured by the annual rate of increase in the retail prices index, has fallen from 5.8 per cent in May to about 5.6 per cent last month.

A Treasury official dismissed the Dun & Bradstreet report as "amateurish". Both it and the IoD report should be treated cautiously, the official said. Neither would lead the government to revise its forecast that the economy would recover in the second half of 1991.

Dun & Bradstreet said its survey was a "widely regarded, independent and accurate indicator of business confidence that is not restricted to an institutional membership catchment nor a single industrial sector".

Forty-seven per cent of companies expect lower profits in the third quarter of 1991, as against 17 per cent anticipating an upturn, according to the survey. The balance of 30 per cent expecting an earnings squeeze is a record since Dun & Bradstreet started its survey in 1987.

A balance of 30 per cent of companies expects to shed staff over the next three months, the same figure as at the start of the year.

Economic outlook, Page 7

Secret bank hid losses

Continued from Page 1

The officials said the most urgent matter was fraud and the need to prevent assets being removed from the bank.

The BCCI affair is certain to be among the topics for discussion at today's monthly meeting of G10 central bankers in Basle.

The meeting will include Mr Gerry Corrigan, the President of the New York Federal Reserve Bank, Mr Robin Leigh-Pemberton, the governor of the Bank of England, and Mr Jaans of Luxembourg.

Sheikh Hamad al-Sayari, governor of the Saudi Arabian Monetary Agency, will also be attending the meeting.

Abu Dhabi urged to help

Continued from Page 1

Nahyan, the president of the United Arab Emirates and ruler of Abu Dhabi, who flew to Switzerland over the weekend, has been behind the Pakistani-run bank since it was founded in 1972.

He and his financial advisers will argue that the Bank of England pounced on the loss-making BCCI – without consulting Abu Dhabi – just as the Abu Dhabi authorities were putting the finishing touches to a rescue plan.

Mr Norman Lamont, the UK chancellor of the exchequer, is due to attend a meeting of EC finance ministers in Brussels today. The task of answering parliamentary questions could therefore fall to Mr John Maples, economic secretary to the Treasury.

The Foreign Office was yesterday trying to avoid allowing the BCCI saga to strain the normally cordial relations between London and the al-Nahyan family.

It referred all calls about BCCI to the Bank of England, emphasising that the decision to shut down BCCI banks was taken in concert with regulatory authorities in other countries and was purely a banking matter.

Abu Dhabi has already injected some $1bn into BCCI since the disclosure of the group's involvement in drug-money laundering.

Abu Dhabi's plans were said to include moving very substantial bad loans off the BCCI balance sheet to two companies which would be supported by promissory notes from the Abu Dhabi government, with the idea of cancelling the losses over seven and a half years.

BCCI, meanwhile, would divest itself of its American and Caribbean interests and focus attention on three regions - Europe (managed from London), the Middle East and South-East Asia (Abu Dhabi) and the Pacific (Hong Kong).

BCCI officials suggest that the Bank of England's dissatisfaction with this plan was because its investigations showed that BCCI losses had been concealed for several years and possibly as far back as 1982.

Croats and Serbs clash

Continued from Page 1

many's foreign minister, said the European Community would review its non-recognition of Slovenia if the army intervened.

Meanwhile, Albania's non-communist government accused Yugoslavia of planning genocide against Albanians in Serbia's Kosovo province.

A statement carried by the official ATA news agency said: "The Serb population is being armed. Paramilitary bands are making provocations, at any moment looking for pretexts for the escalation of genocide against the Albanians."

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Berlin	S	29	84	Caracas		–	–	Faro	S	25	77	Islamabad	F	38	100
Algiers	F	26	77	Biarritz	S	24	75	Casablanca	S	23	73	Florence	S	35	95	Istanbul	F	25	77
Amsterdam	S	25	77	Bombay	F	31	88	Chicago		–	–	Frankfurt	S	31	88	Jakarta	F	33	91
Athens	F	30	86	Bordeaux	S	25	77	Cologne	S	30	86	Geneva	S	25	77	Jersey	R	16	61
Bahrain	S	37	99	Boulogne	R	18	64	Copenhagen	S	29	84	Gibraltar	S	28	82	Johannesburg	S	11	52
Bangkok	F	34	93	Brussels	S	25	77	Corfu	F	29	84	Glasgow	F	24	75	Lima	F	21	70
Barcelona	S	27	81	Budapest	F	28	82	Dallas		–	–	Helsinki	S	27	81	Lisbon	F	25	77
Beirut		–	–	Buenos Aires	F	15	59	Dublin	C	21	70	Hong Kong	F	30	86	London	F	25	77
Belfast	S	22	72	Cairo	S	30	86	Dubrovnik	S	30	86	Innsbruck	S	29	84	Los Angeles		–	–
Belgrade	F	28	82	Cape Town	C	14	57	Edinburgh	R	16	61	Inverness	S	19	66	Luxembourg	S	29	84

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	22	72	Milan	S	30	86	Nicosia	S	27	81	Salzburg	S	28	82	Tenerife	S	26	79
Madrid	S	26	79	Montreal		–	–	Oporto	C	18	64	San Francisco		–	–	Tokyo	S	28	82
Majorca	S	28	82	Moscow	F	23	73	Oslo	S	29	84	Seoul	R	19	66	Toronto		–	–
Malaga	S	29	84	Munich	S	28	82	Paris	F	26	77	Singapore	R	27	81	Tunis	S	33	91
Malta	S	30	86	Nairobi	F	25	77	Peking	F	30	86	Stockholm	S	29	84	Valencia	S	31	88
Manchester	S	25	77	Naples	S	31	88	Prague	S	27	81	Strasbourg	S	31	88	Venice	S	30	86
Manila	F	35	95	Nassau	F	34	93	Reykjavik	S	22	72	Sydney	C	15	59	Vienna	S	27	81
Melbourne	S	12	54	New Delhi	C	38	100	Rhodes	S	27	81	Taipei	F	36	97	Warsaw	S	27	81
Mexico City	C	24	75	New York		–	–	Rio de Janeiro	F	26	79	Tangier	S	23	73	Washington		–	–
Miami		–	–	Nice	S	27	81	Rome	S	27	79	Tel Aviv	S	27	81	Zurich	S	27	81

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES SURVEY

REBUILDING KUWAIT

SECTION III

Monday July 8 1991

The armies of the multinational alliance had little difficulty defeating Iraq on the battlefield and Kuwait has quickly begun the process of reconstruction. But the country's rulers have yet to forge the "new Kuwait" which its citizens are seeking, writes **Victor Mallet**

Post-war depression

SCARCELY four months have passed since Kuwaitis poured on to the streets in an outburst of laughing, dancing and rejoicing to welcome the allied soldiers who defeated Iraq and ended the dark days of the occupation.

With the help of the US Army Corps of Engineers and a gaggle of foreign contractors, Kuwait has begun to repair and replace the $20bn of infrastructure and equipment destroyed and looted by the Iraqis. Electricity and water supplies have been restored and North American firefighters and blow-out experts have capped some 200 of the 700 oil wells sabotaged by Iraqi troops in President Saddam Hussein's parting act of vengeance. By the end of the year this quintessential oil state should once again be a net exporter of oil.

Yet the mood in Kuwait is one of deflation and disappointment, and it is not a feeling which can be blamed purely on post-euphoria depression or on the morale-sapping hydrocarbon haze of yellow, brown and black periodically blown across Kuwait City from the burning oilfields to the south.

Educated citizens are dismayed that Kuwait has so far failed to learn the lessons or to seize the opportunities presented by its most severe crisis since full independence from Britain in 1961.

The al-Sabah family, the hereditary rulers of Kuwait whose leaders fled into exile in the first hours of the Iraqi invasion on August 2 last year, have failed to capitalise on the loyalty and respect with which they are still regarded by most of their citizens. They are not tyrants – they agreed to a parliamentary general election in October next year – but they have yet to display the sort of understanding and leadership needed to mould a stronger Kuwaiti nation.

Sheikh Jaber al-Sabah, the emir, was once known for wearing ordinary clothes and mingling with the Kuwaiti public in the *souk*, but a Shia Moslem attempt to kill him with a car bomb in 1985 (when Kuwait was supporting Iraq in the Gulf war) has turned him into an uncharismatic recluse. Sheikh Saad, the crown prince and prime minister, is more outgoing, but he is accused of concentrating power in his own hands without developing a complementary enthusiasm for decision-making.

Kuwaitis who greeted the liberation by plastering their cars and homes with pictures of Sheikhs Jaber and Saad as well as with Kuwaiti, American and British flags have in many cases been disappointed. The persecution of the Palestinians, it must be said, was not unpopular, except in so far as it sullied Kuwait's reputation abroad. But the failure to sack the military commanders and cabinet ministers responsible for the dismal performance of the Kuwaiti armed forces during the invasion and for the slow pace of post-war reconstruction has angered army officers and merchants, as has the decision to reimpose press censorship of the kind which kept Kuwaitis ignorant of Iraqi intentions at the time of the invasion last year.

"I believe it is an incompetent government," said Mr Khaled Sultan, a businessman and leader of the opposition Popular Islamic Congress, after the half-hearted post-war cabinet reshuffle. "It is politically unacceptable and management-wise it lacks what it takes to rebuild a broken country, from the prime minister down." Mr Suleiman Mutawa, a former planning minister, is equally frank. "Nobody wants the al-Sabah out, so what are they worried about?" he asks. "What prevents them from bringing in good managers?"

One of the most commonly expressed criticisms of the al-Sabah is that they have failed to build on the experience of those Kuwaitis – perhaps a third of all citizens – who remained in the country throughout the seven months of the occupation and fended for themselves or fought in the resistance. Kuwaitis accustomed to cushy government jobs and to being waited on hand and foot by Asian servants found themselves cooking and cleaning and clearing rubbish from the streets. A handful of Kuwaitis, discovering that they actually enjoyed getting their hands dirty, are said to have continued the habit, even selling vegetables and washing cars in the street. Those who remember how Iraqi soldiers kidnapped Kuwaitis and shot them in the back of the head have set up informal organisations to care for war victims and to commemorate the occupation in paintings and drawings – activities in which the government has shown little interest.

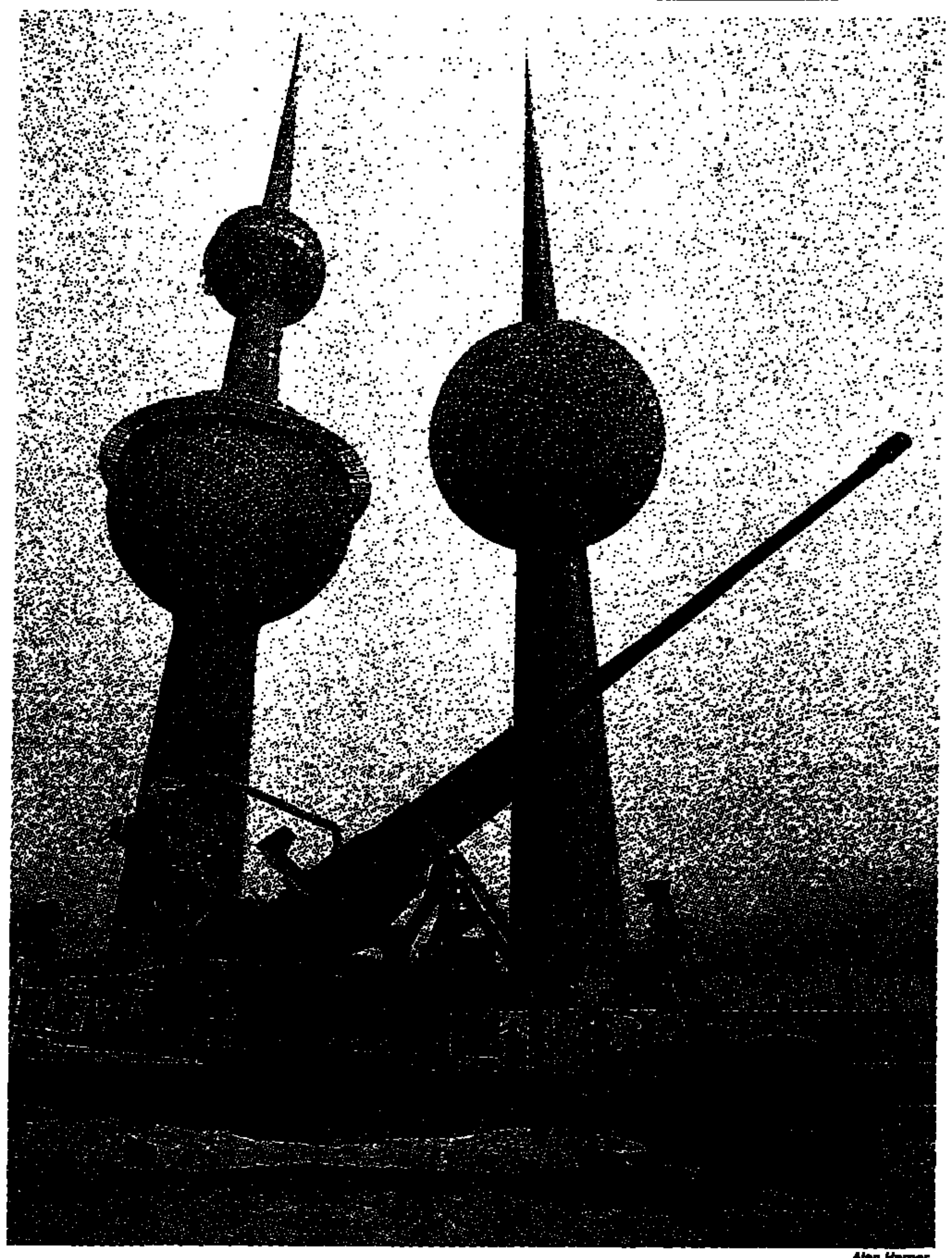
"Before, Kuwaitis felt useless and were useless because no-one gave them the opportunity to do anything," said Mr Sultan. "This spirit in the Kuwaitis has changed since the occupation, but you have to have leadership . . . to capture this and develop it." Western embassies agree. "There is a hell of a lot of frustration among young Kuwaitis," says one diplomat. "They want to do things but they are not being told what to do."

In spite of the lip-service it pays to "Kuwaitisation" (the replacement of foreign workers by Kuwaitis), the government has neither encouraged Kuwaitis to work nor suggested they make the sacrifices which might be expected of any recently liberated people after a period of brutal occupation. It has reverted to the tried and tested Gulf system of patronage, giving cash grants to Kuwaitis and paying off all the KD1.4bn owed in housing and consumer loans by Kuwaiti individuals.

Both the Bedouin tribesmen who form the bedrock of support for the al-Sabah and the merchants who lead the opposition are delighted to take advantage of this largesse; now the merchants are waiting for their commercial debts to be written off as well.

"That's what I call the Kuwait of the 1st of August, which we ought to have murdered," says Mr Mutawa, who sees Kuwaitis behaving in an

Continued on Page 2



Alan Harper

Anti-aircraft gun stands beneath Kuwait's famous water towers

IN THIS SURVEY

■ Economy

The economy has staggered back to its feet after the blows delivered by Iraq's departing army. But the government has yet to map out any long-term economic strategy. Kuwait is planning to borrow abroad to pay for $20bn-$30bn of reconstruction

■ Politics and defence

The euphoria of the liberation has given way to doubts about Kuwait's political direction. Meanwhile, the country is seeking long-term foreign protection as allied troops depart

■ Oil

The departing Iraqis ignited and damaged some 700 wells and the government estimates that 6m b/d are going up in smoke. These losses will have environmental and political consequences – as the ground oozes oil many observers predict a more discreet Kuwait will emerge within Opec

■ Damage assessment and repair

Area	17,818 sq km
Population (est Jul 1)	1.2m
Head of state	Sheikh Jaber al-Ahmed al-Sabah,
Currency	Kuwaiti dinar (KD) 1KD = 1,000 fils
Exchange rate (Jul 1)	$1 = KD 0.295, £1 = KD 0.477
Oil reserves	94bn barrels

David Thomas and Alan Harper

Two Financial Times journalists, David Thomas and Alan Harper, were killed in an accident in Kuwait while researching this survey. David Thomas, who was 37, was Natural Resources Editor. Alan Harper, 34, was a staff photographer and some of his work appears in this survey

Editorial production .... Phillip Halliday

■ECONOMY: back on its feet, dazed and looking for direction

Uncertain steps towards recovery

THE economy has staggered to its feet after the body blows delivered by Iraq's departing army, but it looks confused about where to go next.

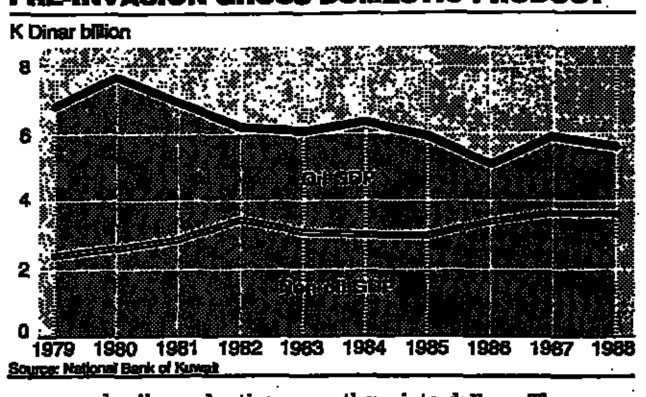
With the emergency assistance of the US Army Corps of Engineers and an assortment of foreign contractors, Kuwait has restored essential services such as electricity and water and started to douse and cap its blazing oil wells. The government is awarding contracts for the repair of everything from schools and telephone exchanges to ministry buildings and royal palaces.

Kuwait, however, has yet to map out any sort of long-term economic or financial strategy beyond accepting the need to borrow up to $20bn from abroad to fund its reconstruction plans.

Even a frugal Kuwaiti administration would find it difficult to avoid borrowing. Before the Iraqi invasion, the country earned about half its annual foreign exchange earnings of $20bn from oil exports and half from the income generated by an estimated $100bn of overseas investments (although some of the state's income was not spent but ploughed back into the Reserve Fund for Future Generations).

The investments have been depleted by the costs of the

PRE-INVASION GROSS DOMESTIC PRODUCT



Source: National Bank of Kuwait

war, and oil production – including the neutral zone shared with Saudi Arabia – is only now approaching the level of Kuwait's reduced domestic consumption.

Foreign exchange outlays, meanwhile, continue apace in a luxury consumer society utterly dependent on imports. New cars and Louis Vuitton luggage are already back on sale in the showrooms and shops of Kuwait City.

Individual bank customers, lacking confidence in the economy and fearing a devaluation of the currency in spite of official denials, have been frantically withdrawing their Kuwaiti dinars and changing them into dollars. The government, with no net oil revenue and one of the world's most generous, tax-free welfare states to manage, is going to have to rely on its foreign assets or on borrowing to fund the budget for the financial year starting in July. (Kuwaiti ministers predict that the budget, amounting to perhaps KD3bn, will be announced several weeks late because of the confusion in the aftermath of the Iraqi invasion.)

Many of the foreign businessmen who flocked to Kuwait just after the war have returned home, disappointed to find that Kuwait's infrastructure has emerged from the war not flattened but merely battered.

"The term reconstruction has been replaced by rehabilitation, to the dismay of many contractors," says Mr Wael al-Mazeedi, a Kuwaiti business consultant.

There is still plenty of money to be made, especially by companies with the patience and the experience which comes with long years of work in the Gulf states. Rebuilding the oil industry will cost billions of dollars, while the rest of the country's infrastructure requires perhaps $15bn to restore it to its pre-war condition. In addition to that, Kuwait's armed forces need to be resupplied and retrained.

Even where there is no obvious damage, maintenance in many areas has been neglected for a year.

The situation varies from one sector of the economy to another. Roads, for example, are in surprisingly good condition; the Iraqis could not take the asphalt with them. But colleges and schools were often damaged or stripped of books and equipment.

A British group led by the British Council has won a £40m contract to resupply and repair 200 schools in time for the new term on August 24, and further education deals are in the offing.

Many emergency repair contracts were awarded on a cost-plus basis (under which a contractor agrees to do a job and takes a percentage of the overall costs as profit), and companies from countries which played a leading role in the multinational alliance against Iraq were favoured in the shortlisting process and in the awarding of contracts.

However, it did not take long for the Kuwaitis to revert to their pre-war style of hard bargaining. More recent contracts have been awarded on a fixed-price basis and Kuwait is again emphasising that commercial considerations come first, even if there is still a residual bias in favour of the allies.

While the foreigners ponder a pie which is smaller than they would like, Kuwaitis are wondering whether the government has an economic policy, and if it does, what the policy is.

There are some hard-working technocrats in the cabinet, including men such as Mr Ahmed al-Adsany, the minister of electricity and water. But overall control is in the hands of Sheikh Saad al-Sabah, the crown prince and prime minister, and Sheikh Salem Abdul-Aziz al-Sabah, the governor of the central bank – both of whom are accused of being simultaneously unwilling to delegate and unwilling to take hard decisions. Mr Nasser al-Rowdhan, the new finance minister, is, in the polite words of one diplomat "still on a learning curve".

Indecisiveness can be disastrous even in times of peace, as Kuwait discovered with the 1982 crash of the unofficial Souk al-Manakh stock market – which officials had failed to control (and in which they frequently participated). The fiasco left behind paper debts of more than $90bn and the financial debris was still being cleared up when Iraq invaded in August last year.

The war has redoubled the need for decisive management and for a vision of Kuwait's economic future.

It is not clear, for example, whether the authorities want to revive Kuwait's modest collection of industrial and agricultural import substitution

An Arab executive talks business with his American counterparts. Many foreign executives have returned home disappointed that reconstruction has been replaced with rehabilitation

businesses. "Maybe one of the few silver linings of the invasion is that some of our industries are not going to be rehabilitated," says Mr Abdul-Latif al-Hamad, a former finance minister. "They were inefficient."

Nor is there any clarity about the future size of Kuwait's population or about the shape of the domestic consumer market.

The government wants to reduce the number of foreign workers in the country, but there is widespread scepticism about its ability to do so without persuading more Kuwaitis

Kuwait has yet to map out any sort of *long-term economic* or financial strategy

to work in the private sector.

Other significant problems remain unresolved. Tenants are not sure whether they are obliged to pay rent for the seven months of the occupation, as many Kuwaiti landlords are demanding, and the government has given no guidance other than to say that it is a matter for the courts.

The law requires imports to be sold through a Kuwaiti agent, but many agents were Palestinians with Kuwaiti front-men and cannot now be traced; some ministries are buying direct from abroad, but again there is no clear policy. The government has hardly begun to put together a claim for compensation from Iraq.

Above all, the government had by the end of June given no indication of any plans to compensate merchants and businessmen for the assets stolen or destroyed by the Iraqis or to write off their debts to the commercial banks.

There are two principal approaches to this dispute. Many of the merchants, relying on an age-old system of financial patronage which sits uncomfortably with their demands for political independence, argue that they should be bailed out by the ruling family and the state so that they can get on with their business. (They also say, with more justification, that they cannot make investment decisions until they have more faith in the administration).

Their detractors argue that merchants and other Kuwaitis should draw on their own financial resources, take some risks, and accept that the milch-cow state has lost at least as much in the way of assets as they have.

"What is the point of talking about the private sector if it is so goddam dependent in a parasitic way," asks an exasperate Mr Suleiman Mutawa, the former planning minister. "People can come back and say that their gold has been stolen. Is the government going to compensate that individual? Because if they take that route, they are going to need the oil of Kuwait and Saudi Arabia for 15 years."

The state, then, is being asked to bail out the business community and the banks (which were already in a mess because of the Souk al-Manakh disaster), at the same time as repairing the oil fields which form the basis of its wealth.

It has forgiven personal housing and consumer debts amounting to KD1.4bn. Government officials say they need more time to formulate policy as the emergency reconstruction phase comes to an end. "What you need is political stability and security and you need Kuwait to start production of oil," says Mr Abdullah al-Gabandi, managing director of the Kuwait Investment Authority. "We are moving towards the end of the year when things will really be organised."

Even a frugal Kuwaiti administration would *find it difficult to avoid* borrowing

Central Kuwait City, apart from the smog and the odd damaged building, now looks much as it did before the war, but the UN estimates that gross domestic product fell more than 70 per cent between August 1990 and February this year.

"The Kuwaiti economy is like a control panel in one of my factories," says Mr Bassam al-Ghanim, one of the country's leading merchants. "When you open it up all the wires inside have been cut, and when the electricity is turned on all the live wires fuse out. Inside it's like spaghetti fusing. But when you close the box up it looks perfect."

Victor Mallet

Escape from Iraq but not from the past

Continued from Page 1

"unbelievably routine" way.

Others share his concerns. "I was hoping after this invasion that the Kuwaiti mentality had changed," says Mr Abdullah al-Gabandi, managing director of the Kuwait Investment Authority. "But unfortunately it has not. The people are still spoiled. This attitude where everyone goes to the government must stop . . . we should have a new era, a new Kuwait."

There are no obvious signs that such an era is in the making, but the invasion did stir up unpredictable political currents under the surface.

While many Kuwaitis of Bedouin origin followed their sheikhs into exile, most of the urbanised and generally underprivileged Shia Moslems who make up 30 per cent of the population remained behind, and in some cases fought creditably against the Iraqis in the resistance.

The Shias and established Sunni city-dwellers making up the coastal population, the so-called "fish-eaters", believe they have won themselves the right to a greater stake in a state ruled by the Bedouin "meat-eaters". Like most Kuwaitis, the Shia have hidden away numerous weapons left by Iraq's fleeing army, although it is not clear whether the shadowy August 2 movement – which has demanded that the government be purged of those responsible for the debacle of the Iraqi invasion – has strong Shia connections.

Sectarianism should not be over-emphasised in a society which has found a common enemy in Iraq. But for Kuwait to flourish as a modern nation state – independent of Saudi Arabia, Iran and Iraq, its three powerful neighbours – it needs a much clearer vision of its national ideals.

That is no easy task for a country whose national monument is a group of Swedish-designed water towers built in the 1970s and whose political culture is an uneasy mixture of Islam and materialism, of the Gulf tradition of patronage and the western tradition of democracy.

After the trauma of the Gulf war, Kuwait has yet to build on the financial and political achievements of the past which gave it a treasure chest of overseas foreign investment worth $100bn to fund the war effort, and the most liberal political system on the Arab side of the Gulf.

"We need the type of leadership that will build Kuwait, the type of leadership we had in the 1960s, that will move Kuwait ahead of its time," says Mr Abdul-Latif al-Hamad, the former finance minister.

For the moment, Kuwait remains what it has been for the past three decades, an oil-based welfare state and consumer society where a few citizens work hard and the majority employ foreigners to work for them. Many Kuwaitis are, as usual, spending the hot summer months in Europe while well-paid Americans repair the oil wells. Kuwait, it seems, has escaped from Iraq, but not from its own past.

REBUILDING KUWAIT 3

■SECURITY: one of the biggest problems — it is something that money cannot buy

Rapid deployment ideas gain force

LONG-TERM national security remains one of the government's most difficult dilemmas. The lamentable performance during the debacle of August 2 of Kuwait's armed forces – in spite of the billions of dollars lavished on them before the conflict – has underscored the inability of this tiny nation to secure its own defence.

"The Kuwaitis are never going to be able to defend the country on their own against such powerful neighbours," says one western diplomat. "They must always rely on others to come to their aid."

Although the Kuwaiti government was anxious for the US, Britain and France to keep sizeable ground forces in the area, all have proved reluctant to do so. The last US armoured brigade is due to leave at the beginning of September, though Sheikh Saad al-Sabah, the crown prince, has asked for US troops to stay until the end of the year. The last remaining British forces are expected to leave in July, while the French have only a 40-man mine-clearing team in the country.

Nevertheless, the Kuwaiti government remains keen to secure defence agreements with western nations, and, in particular, the US. It wants to secure some sort of commitment for a rapid deployment force to be sent to Kuwait if its security was threatened. The US 82nd airborne division is presently the only viable force that could fulfil that role on its own.

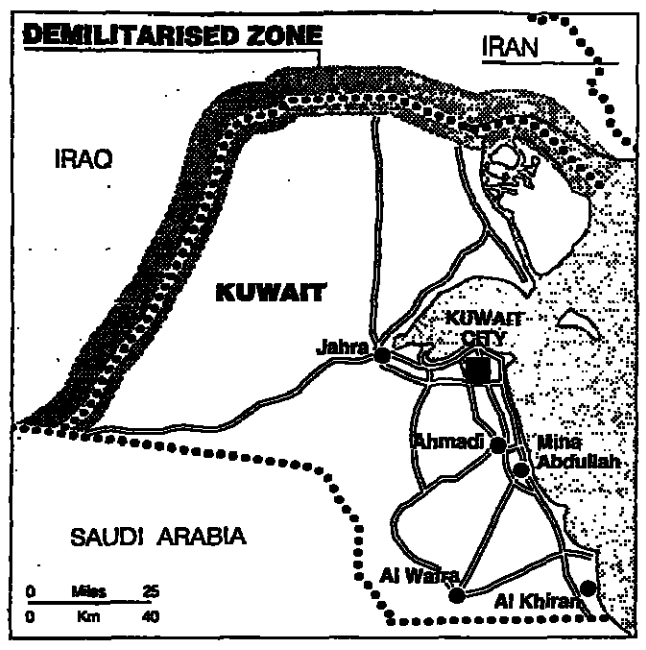
Conscientious officers watched 20 years of effort disappear in a single night

Any agreement is likely to be similar to the non-binding agreement between the UK and Kuwait that resulted in British troops being sent to protect the country in 1961.

In the short term, western diplomats assess the risk to the country's security as minimal. The Kuwaitis remain concerned nonetheless about the long-term threat from its more powerful neighbours. Sheikh Saad has said that President Saddam Hussein of Iraq is plotting to invade Kuwait again.

Kuwait's defence is secured at present by 6,000 Saudi troops, 3,000 from the Gulf states, 3,000 from Egypt and a further 3,000 from Syria.

Without any long-term commitment from western nations, an outline agreement has been reached for a permanent force of 26,000 Arab troops to back up the Kuwaiti army. Sheikh Saad has declared: "The hope lies not in the presence of foreign troops, but in an agreement of the Gulf Co-operation Council with dear Egypt and sister Syria."



Meanwhile, Kuwait's forces are in disarray. Until the country has secured the alliances necessary to guarantee reinforcements from other states, the role and structure of the Kuwait's forces will remain unclear.

British and Americans are likely to help the Kuwaitis set priorities. In the event of hostilities, the Kuwaiti military would at least need to protect Kuwait City and an airport for number of days while additional troops arrived from other countries. Once the duration of that holding action has been established, then the structure of Kuwait's armed forces can be decided.

Lack of manpower remains the most pressing problem for the Kuwaiti military. With a male adult Kuwaiti population of only 160,000, and a pre-war army of 16,000, the country does not have the manpower to create a sizeable force.

Moreover, the navy and army's manpower problems have been exacerbated by the decision of Sheikh Saad al-Sabah, the crown prince, to investigate stateless Arabs in the armed forces and in many cases fire them.

These men, known as *bidoun*, form the majority of non-commissioned forces in the army and about 60 per cent of all sailors in the navy.

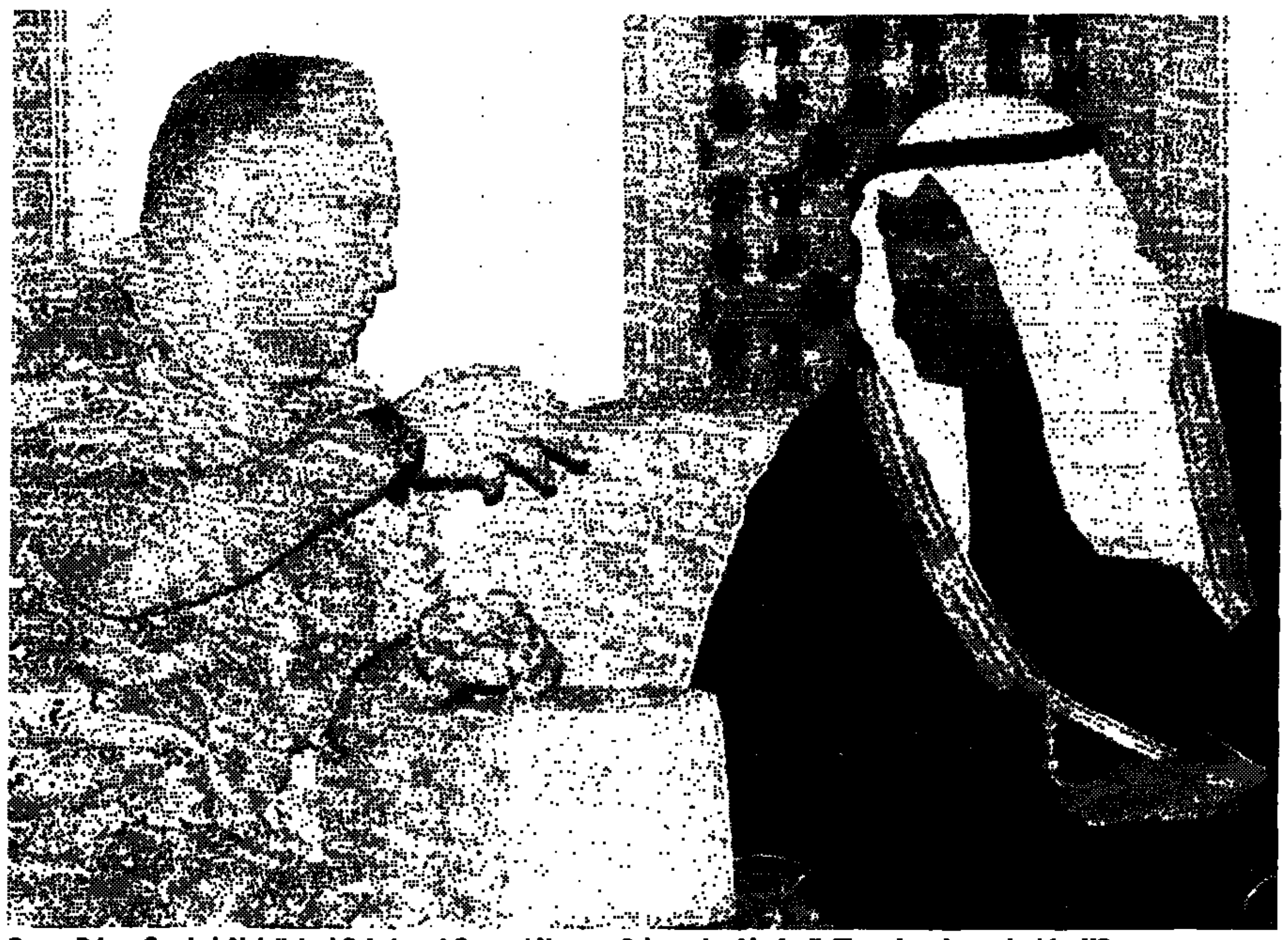
The consequences of this policy for the army are potentially disastrous. Kuwait's four regular brigades, which before the war had as many as 4,000 troops each, are presently down to as few as 1,000 men. The navy has also been badly hit by the *bidoun* policy, although the air force has been less badly affected.

To compensate for the Kuwaitis' lack of numbers, the armed forces will need to rely on high technology equipment that will act as a force multiplier. Such equipment is sadly lacking after the debacle.

Says one western diplomat: "It will take five to 10 years, and billions of dollars to reconstitute the armed forces."

The Kuwaiti army has lost almost all of its heavy equipment. Only 18 out of 250 tanks survived the initial Iraqi onslaught. The rest were either destroyed or captured by the Iraqis or sabotaged by the Kuwaitis themselves to prevent them falling into enemy hands.

Admittedly, a pre-war order for about 110 M84 tanks (the Yugoslavian equivalent of T72s) has been supplied. Western diplomats believe a further 100 will be delivered. But after the poor performance of the Iraqi Soviet-designed T72s during the allied offensive, the Kuwaiti military may reassess their future requirements, say diplomats.



Crown Prince Saad al-Abdallah al-Sabah met General Norman Schwarzkopf in April. The prince has asked for US troops to stay until the end of the year but the last US armoured brigade is due to leave at the beginning of September

A lieutenant sporting a beard and wearing civilian clothes rather than a uniform as a mark of passive resistance to the military hierarchy said: 'What you have to sell these people instead is courage'

Most of the army's artillery has also been destroyed or captured. However, the army is awaiting the delivery of 18 155mm self-propelled pieces supplied by the French state-owned arms company, Giat.

The air force's two main bases were completely destroyed by allied bombing and all its air defences have been seized by the Iraqis.

What remains of the air force is operating out of Kuwait's civilian airport. About 15 of the Kuwaiti's Mirage F1s survived the war, as did six British Aerospace Hawks, and a number of American A4 *Skyhawks*. However, the majority of the jets that survived are out of date and will need replacing. The Kuwaitis are awaiting the delivery of a pre-war order from the US of FA-18s.

As for the navy – which according to western diplomats will probably have the most taxing role in the near future, defending islands such as Bubiyan and Warbah – 80 per cent of its fleet has been destroyed.

Western military advisers are likely to press the Kuwaitis to build at least one military city on the Saudi model. During the invasion, most troops were caught at home without weapons away from their bases. In many cases they were caught by the Iraqis as they rushed to their barracks.

However, the reconstruction of the Kuwaiti armed forces has been paralysed by a crisis of morale in the military.

Anger and shame dominate many middle-ranking officers' sentiments about the performance of Kuwait's senior civilian and military defence staff during the invasion of August 2. Almost the entire officer corps of the Kuwaiti army has threatened in a letter to Sheikh Jaber al-Sabah, the emir, to resign if those they blame for Kuwait's rapid defeat by Iraq last August are not dismissed.

Although the 1,200 disgruntled officers who signed the letter couched their request to the emir in polite and loyal tones, they are keen to obtain the resignations of the defence and interior ministers at the time of the invasion as well as that of the acting chief of staff. All are members of the ruling al-Sabah family.

Maj Gen Jaber al-Sabah, acting chief of staff and Sheikhs Salem and Nawaf al-Sabah, were ministers of interior and defence. Both are still in the cabinet.

A number of dissenting Kuwaiti air force officers, also threatened in April to resign by the beginning of August – possibly to coincide with the first anniversary of the Iraqi invasion. At least one of the officers who signed the letters has the rank of brigadier general.

In spite of the bitterness, there is no question of a military coup, according to western diplomats. However, they assume some of the signatories sympathise with a clandestine organisation called the Movement of the 2nd of August which has stated it will remain armed until it is satisfied that the government has been purged.

Officers and enlisted men remain angry that many senior defence staff, who either ran away during the invasion or failed to provide effective leadership, are still in government or at their pre-war posts. Many of those demanding the resignations were among the 700 officers captured by the Iraqis during the invasion.

Before the invasion, the Kuwaiti armed forces were refused permission by their senior officers to prepare for the battle, in spite of repeated pleas.

Some senior officers were on holiday, while a number of units were at only 30 per cent strength. The alert was only finally given four hours before the Iraqis invaded.

In spite of some extreme deeds of individual heroism, what forces became available were committed in small pockets and quickly ran short of ammunition.

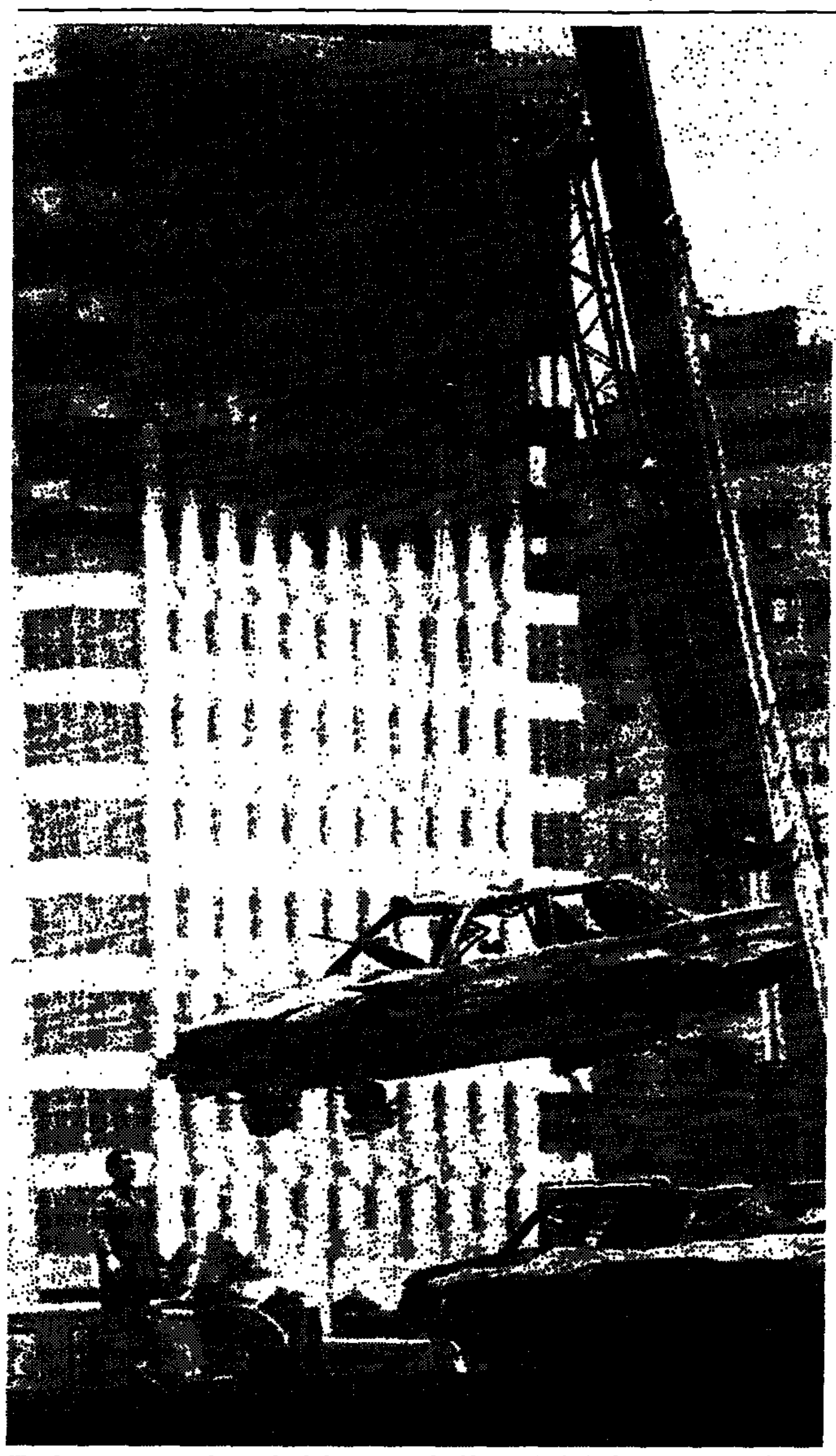
"The events of August 2 were a tragedy for the Kuwaiti armed forces," says one western diplomat. "Conscientious officers watched 20 years of effort disappear in a single night through inefficiency, incompetence and, it must be said, a level of cowardice."

To illustrate the problem, another diplomat describes a visit to the Kuwaiti army's general headquarters to discuss future procurement plans. A lieutenant sporting a beard and wearing civilian clothes rather than a uniform as a mark of passive resistance to the military hierarchy, told him: "What you have to sell these people instead is courage."

Paul Abrahams

Stephen Fidler reports that reconstruction estimates have settled at $20bn-$30bn

Nation looks to foreign money



War damage: a wrecked car is loaded on to a truck with other hulks in downtown Kuwait City

SINCE the Iraqi army was expelled from Kuwait, assessments of the repair bill for seven months of Iraqi pillage have been scaled back significantly. The initial guesses ranged up to $100bn and above; now estimates have settled back to the $20bn-$30bn range.

The government could probably fund this without borrowing, by selling some of its financial assets held abroad. However, that would not only risk depressing the price of these assets but could leave the emirate in danger of having no significant financial cushion to withstand another disaster.

Kuwait's easily realisable assets may be as low as $30bn-$40bn. It has undoubtedly already sold securities from this stockpile. For a time yet, it will be without substantial income from oil exports as firefighters complete the laborious and dangerous process of extinguishing oilwell blazes.

According to Kuwaiti officials, the green light has been given for the state to borrow abroad for the first time in recent history. Kuwait is thought to be looking for a total of $20bn over a period of years. Ostensibly, given Kuwait's vast assets in the form both of investments overseas and crude oil underground, there should be few problems raising that kind of money.

However, the Kuwaitis may be surprised to find that the desire of international banks to lend significant sums of unsecured funds is limited. The approach which will allow the Kuwaitis to borrow at the cheapest terms will, according to bankers, have them tapping a large number of different markets over the longest period possible.

Kuwait should, if it desired, be able to raise some funds unsecured. Its neighbour, Saudi Arabia, managed to raise $4.5bn from about 20 international banks at an interest rate margin, according to bankers, of ¾ percentage point above the London Interbank Offered Rate (Libor). The problem for Kuwait is that some bankers believe it would have to pay more for the same privilege.

One reason is technical: international bank lenders to the Saudi Arabian government, the only sovereign borrower outside the Organisation for Economic Co-operation and Development for which this applies, do not have to set aside capital for their loans under the Basle international capital adequacy rules. But loans to the government of Kuwait will carry the full weighting, meaning that 8 per cent of funds lent will have to be set aside as capital.

The other is the perception of risk. The focus of worries about lending to Kuwait has shifted from external threats to the internal challenges to the Kuwaiti government. Some bankers judge that its performance since reassuming power has been less than reassuring.

One banker, speaking off the record, said he believed that because of these worries it would require a margin of at least 1½ percentage points over Libor to encourage banks to lend unsecured funds. This might, in effect, rule out such borrowing if only because it would invite embarrassing comparisons with Kuwait's neighbour. However, other bankers remarked that as an significant owner of large foreign investments, Kuwait had significant clout in manipulating bank relationships which would probably encourage bankers to lend at margins lower than they would otherwise be inclined to.

Kuwait should be able to raise some funds unsecured, if desired

Bankers also said it was possible that Kuwait would balk at some of the terms conventionally attached to such loans, which the Kuwaitis could well see as placing unwarranted restrictions on their freedom of action.

However, there are other ways in which Kuwait could raise funds. It should, for example, have little difficulty in winning export credit finance, or other project finance, for projects being undertaken by foreign companies in the country.

Beyond that, Kuwait could be more creative. Future oil exports could be used as security for borrowing, either short-term or longer-term. This would have the drawback that it would still depend on financiers' perceptions of political risks inside Kuwait. Although ostensibly secured, future payments would be seen as depending on Kuwaiti willingness to pay.

Not so borrowings secured on Kuwait's foreign investments, which would thus be much cheaper for the government. According to Kuwaiti officials, the government has already generated some short-term finance through the use of repurchase agreements for US Treasury bills. This technique, common in the US Treasury and other sophisticated fixed-income markets, is a temporary sale of securities with an agreement to buy them back at a future date.

Longer-term funding could be obtained through the establishment of escrow accounts into which securities would be placed, and against which funds would be advanced. Some securities – the less volatile and less risky ones – would be more suitable for use in this way than others.

However, Mr Abdullah al-Gabandi, managing director of the Kuwait Investment Authority and head of the Kuwait government's New Finance Committee, said that if the KIA is charged with arranging the borrowing it would endeavour to raise funds without pledging assets as security.

According to Kuwaiti officials, the government has already talked to 40 or 50 banks and there are some expectations that the strategy they decide to adopt will be made clear soon. Mr Gabandi has said that his preferred route would be to use a combination of borrowing options.

Financial institutions not owned by the government are already said to have raised some funds from the international market. An official at Bankers Trust said that his bank had raised some funds for some such institutions, but declined to name them or specify how or how much. The official said that the funds were raised in a way which did not test the market's appetite for Kuwaiti risk.

■KIO: a wealth of financial knowledge

State's treasure chest

FEW small countries in crisis are blessed with the wealth and financial know-how of Kuwait.

Before Iraq's invasion, the state's overseas assets, though generally shrouded in the strictest secrecy, were routinely estimated at $100bn – or well over $100,000 for each Kuwaiti citizen. Possession of such sums has necessitated the hiring and training of technocrats to manage it prudently.

The London-based Kuwait Investment Office (KIO), as Kuwait's repository par excellence of this expertise for more than 20 years and with its mix of British and Kuwaiti investment specialists, has a critical role to play in financing the reconstruction. So does its more Kuwait-based parent, the Kuwait Investment Authority (KIA). If the state manages to put together a flexible, affordable financing package appropriate to its needs, the chances are that individuals from these two organisations will have had a lot to do with it.

Indeed, the KIO has proved its worth during the fraught period after the invasion when President Saddam Hussein's forces controlled Kuwait. In those harrowing months, the office supplied funds to other elements of the economy-in-exile – even though its assets are technically kept in the Reserve Fund for Future Generations (RFFG), which amounts to a lucrative state pension fund of the future.

The office's assets constituted the state's "only financial source," commented Sheikh Salem Abdul-Aziz al-Sabah, the Kuwait central bank governor, at the time. Without its treasure trove, stashed away in safe havens, the invasion would have left Kuwait in poverty.

Kuwait has come to terms with the fact that it needs to borrow for the first time in its modern history, with rebuilding costs estimated at $20-30bn and roughly the same again spent on its liberation. Borrowing is seen as preferable to liquidating more of its stock of investments, both because of the likely effect of such sales on global financial markets and because officials expect those investments to appreciate faster than the rate of interest, making it advantageous to borrow against them rather than sell them.

Executives from Kuwait's investment bodies – sitting on the New Finance Committee – were instrumental in persuading the government of the soundness of this premise. They have held initial talks with international banks and export credit agencies. They will have a big say in determining the size and nature of the liabilities entered into and how the portfolio is managed.

Mr Abdullah al-Gabandi, the KIA's managing director, has said that he would aim to exploit a combination of borrowing options – including raising money against future oil deliveries, repurchase agreements and export credits – should he be entrusted with arranging the fund-raising programme. But it has still to be decided whether the KIA or the central bank would be given formal responsibility.

One beneficial side-effect of the borrowing programme could well be that it brings the KIA and its headstrong subsidiary closer together. Relations between the two camps have begun to improve after years of mutual animosity, following Mr al-Gabandi's appointment to the managing directorship in February. There is no doubt that the acceptance of liabilities, particularly if asset-backed, will demand close co-operation between the two bodies if efficiency is not to be impaired. "There has to be very strong co-ordination between Kuwait and London because only that way do you maximise your potential," says a prominent Kuwaiti investment adviser.

The relationship between the two bodies has been distinctly testy virtually since the KIA was founded – largely with the aim of keeping the KIO on a tighter leash – in 1982. The tension reflected the friction in Kuwaiti society between the ruling al-Sabah family and other prominent Kuwaitis who wanted clearer distinctions between the roles and interests of the state and those of the ruling family. Broadly speaking, the KIO has been identified with the al-Sabah, while the KIA has been linked with the outsiders.

The KIA was set up to keep the KIO on a tighter leash

In recent years, the KIA had appeared to be gaining the upper hand in the low-level sniping between the two entities. This was never more the case than in February 1990 when it was decided to recall to Kuwait Mr Fouad Jaffar, the long-serving KIO general manager. But the Iraqi invasion appeared to tilt the power balance back in favour of the KIO and those who had argued for an asset base in London.

One consequence of attempts by the al-Sabah family to assert control was the resignation in January in an unprecedented protest about the office's management structure of 12 KIO executives headed by Mr Salah al-Maousherji, assistant general manager. Mr al-Maousherji had been one of the new wave of executives brought in after Mr Jaffar's departure. "The Gulf crisis added another element of malaise in that it increased people's willingness to be outspoken because they were no longer inhibited by the structures of society," said one observer.

But Mr al-Gabandi's appointment appears to have encouraged a new spirit of reconciliation. Eleven of the 12 executives who resigned have since returned to work in the office following assurances that administrative and reporting guidelines would be respected.

It seems beyond dispute that the cost of the war – along with other factors such as the depressed property market – have eaten into the state's large foreign holdings. Mr al-Gabandi has admitted that the government "had to rely on its investments." But he adds: "We were very liquid" when the invasion came. What it has not done – and what the government is aiming to avoid by borrowing – is to dispose of core long-term holdings under duress. "We did not have to touch our core [long-term] investments," Mr al-Gabandi says.

UK investments include just under 10 per cent of British Petroleum and just over 10 per cent of Midland Bank. Among the state's German interests are substantial holdings in Daimler-Benz, Hoechst and Metallgesellschaft.

Even as it prepares to enter international debt markets as a borrower for the first time, Kuwait's wealth remains formidable.

David Owen

■POLITICS: little change on the surface

Vision of democracy remains elusive

KUWAIT'S political scenery, to everyone's surprise, looks remarkably similar at first glance to the way it was before the Iraqi invasion in August last year.

On one side sits the ruling al-Sabah family, determined to keep executive power in their own hands. On the other are the educated opposition leaders of the merchant class, eager to relegate the al-Sabah to the role of ceremonial monarchs and to restore the 1962 constitution which gave Kuwait a parliament and made it the most democratic of the Gulf states.

The al-Sabah have ignored criticism both of their failure to defend the country against the Iraqi invasion and of their languid and directionless style of government since the liberation of the country on February 26.

Sheikh Saad al-Sabah, the crown prince, shocked many Kuwaitis when he reappointed Sheikhs Salem and Nawaf al-Sabah – respectively interior and defence ministers at the time of the invasion – to the cabinet in a reshuffle in April, although the two men are widely held responsible for the August debacle.

Kuwaiti inhabitants (right) celebrate liberation as they pass an abandoned Iraqi tank on February 27. The euphoria gave way to concerns about the political direction of Kuwait; Sheikh Jaber al-Sabah the emir (left) and Sheikh Saad, the crown prince, shocked many Kuwaitis when they reappointed ministers to the cabinet who had been widely held responsible for the August debacle

The government also closed down *February 26*, the only newspaper to appear just after the liberation, and reimposed press censorship of the kind which left Kuwaitis in the dark about the obvious dangers of an Iraqi invasion in July last year.

"No-one believed they would go back to the same old practices," says Mr Abdullah Nebari, a former MP and member of the Democratic Forum opposition group, "but it's the same old fight . . . the ruling family would like to get rid of the constitution and whatever limitation it puts on their authority and prestige."

However, Sheikh Jaber al-Sabah, the emir, has announced that a general election will be held in October 1992, fulfilling a promise made by the al-Sabah when they met opposition leaders in exile in Jeddah, Saudi Arabia, last year.

The election date is late enough to disturb the opposition but early enough to defuse public concern about the lack of democracy.

That partly explains why, in spite of the level of public discontent, the opposition has not won more support since the liberation. Many ordinary Kuwaitis share their concern about the government's handling of the economy and other vital issues but are not convinced that the opposition would do much better.

Poorer Kuwaitis of Bedouin stock, dependent on the generous welfare state for jobs and housing, also tend (with some justification) to regard the government's most visible opponents as a group of merchants bent on pursuing their own vested interests in a long-running tussle with the al-Sabah for power and money.

Constitutionalists have made some progress. The seven different strands of the opposition have established a common political platform and a joint working group, comprising members of the parliament dissolved by the emir in 1986, the Democratic Forum (left-leaning and Arab nationalist), the Constitutional Alliance (merchants), the Popular Islamic Congress (Sunni Moslem), the Islamic Constitutional Movement (Sunni – the Moslem Brothers), the National Islamic Coalition (Shia Moslems), and a group of independents.

Representatives of the various groups meet twice a week and have been received by the emir, who listened politely but has apparently remained unmoved by their demands. At the same time as announcing the general election, Sheikh Jaber ordered the National Council, a controversial interim body dismissed by the opposition as unconstitutional, to convene from tomorrow.

Opposition leaders suspect the al-Sabah will use the council to nurture a new class of conservative Bedouin politician and to redraw electoral boundaries ahead of October 1992, in order to give more weight to the Bedouin suburbs which loyally support the ruling family. In the search for credibility the council may even be given some "false teeth", perhaps in the form of a mandate to examine allegations of corruption at the government's headquarters in Taif during the seven months of exile.

Last year's election for the National Council – two months before the Iraqi invasion – was boycotted by the opposition after a period of demonstrations and protest meetings going back to 1989. During the occupation, the opposition was hamstrung by the need to show that Kuwait was united, but now it has issued a list of common demands – the abolition of the National Council, a ban on changes to the electoral law, the introduction of an uncensored press and other freedoms, and guarantees of a fair general election.

These demands are being considered in Kuwait's *diwaniyas*, the social and political gatherings where such matters are traditionally discussed among men, and may be reiterated more forcefully in demonstrations in September when Kuwaitis return from abroad for the cooler autumn months.

The future shape of Kuwaiti democracy remains uncertain. At present there are only about 65,000 Kuwaiti voters – all male, over 21 years old, and drawn from the ranks of families able to trace their Kuwaiti origins back to 1920. But some women and "second-class" citizens (including some Shia Moslems) resisted the Iraqi occupation so bravely that the two groups may have earned themselves a place on the voting register. The voting age may ultimately be lowered to 18 years.

Even if the parliament is fully restored in 1992 under the beady and undemocratic eyes of neighbouring Saudi Arabia, the business of government will not be easy.

Apart from anything else the constitution makes for an awkward balance of power between the emir, who appoints the cabinet, and the parliament, which can force ministers to resign.

Sheikh Jaber suspended the parliament in 1986 because MPs were levelling accusations of corruption at ministers who were also members of the al-Sabah family. Hitherto the political agenda has been framed by the old battle for influence between the al-Sabah and the merchant families.

The merchants chose the al-Sabah – and funded them – as Kuwait's administrators in the 18th century, but the discovery of oil and the accrual of enormous revenues to the state gave the al-Sabah and the Gulf's other ruling families undreamed of financial independence.

If the agenda remains unchanged, then Kuwait is unlikely to face any sort of catastrophic domestic upheaval. But the war has left some unanswered and disturbing questions behind it which suggest that the agenda might contain some new items.

Will the Shia Moslems who make up 30 per cent of the Kuwaiti population and who were prominent in the resistance be satisfied with a secondary role in society?

What will become of the numerous weapons left behind by the Iraqis and now in the hands of Kuwaiti young men?

Is it true that some younger members of the al-Sabahs set up private armies in exile during the Iraqi occupation?

Who knocked at the door of Mr Hamad al-Jouan, the opposition lawyer and former MP, and shot him shortly after the liberation of the capital in February?

How serious is the discontent in the armed forces over the poor performance of the Kuwaiti military command in the war?

How powerful is the shadowy August 2 movement which appears to be calling for the overthrow of the government?

"No Kuwaiti that I know would like a revolutionary change in Kuwait," says Mr Abdul-Latif al-Hamad, the former finance minister. "What we would like is the application of the constitution, which is the best guarantee of the ruling family."

Mr Ahmed Saadoun, the speaker of the dissolved parliament, insists that the opposition will win its fight. "We are going to have a real democracy," he says. "But what will be the cost, that's the question. I hope there will be no cost."

Victor Mallet

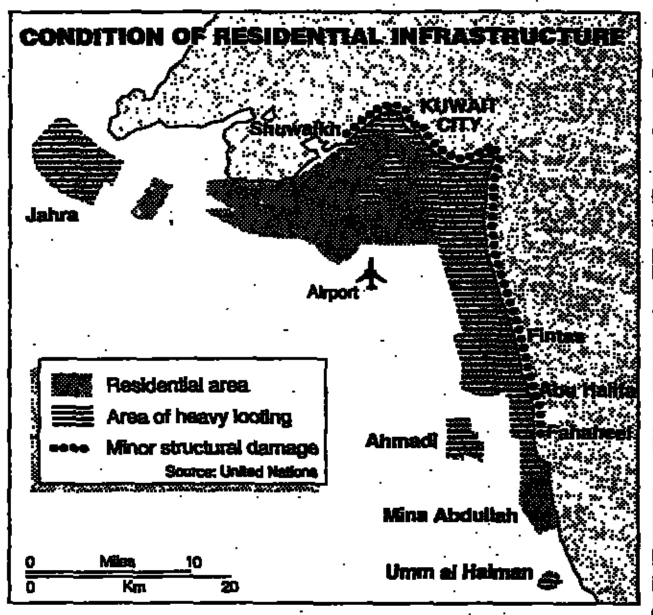
DAMAGE ASSESSMENT

Impact of destruction to be felt for generations to come says UN report

IT will take many months for the full cost of Iraq's occupation of Kuwait to be calculated in detail.

The latest estimates suggest that Kuwait will have to spend about $20bn on reconstruction, a figure which excludes both the cost of financing the allied war effort and the oil revenues lost as a result of the occupation and President Saddam Hussein's decision to destroy Kuwait's oil wells.

The most comprehensive, if preliminary, assessment of the damage is a bulky document published at the end of April by the United Nations, following an investigative mission led by Mr Abdulrahim Farah, a former UN under-secretary-general. Mr Farah and his team concluded that the economic impact on Kuwait was devastating. This is what they found:



● Rehabilitation of the oil industry, including the capping of oil wells, repair of gathering centres and reconstruction of refineries, will probably cost more than $5bn. It is estimated that Kuwait is losing about 4m b/d, more than double its pre-war production, from the sabotaged wells.

Hidden losses include the damage caused by lack of maintenance

● Critical parts of electricity generating capacity and the distribution grid were destroyed. Repairs could cost about $1bn.

● Theft and damage to ports, the airport and the national airline amount to more than $2bn.

● Half the country's road transport fleet of buses, trucks, cars and other vehicles were stolen or destroyed. Restoring the fleet to the former level of 560,000 vehicles could cost more than $5bn.

● About $1bn will be needed to restore the international and domestic telecommunications systems.

● A further $500m will be needed to make good the losses of the media, including damaged and stolen radio transmitters and printing establishments.

● Housing losses are difficult to estimate. Using a figure of $15,000 a household, the UN estimates losses at 170,000 housing units, costing $2.5bn.

● Repairs to damaged hotels will exceed $500m.

● Valuables were taken from commercial banks, and $500m worth of gold was removed by the Iraqis from the central bank.

● Tentative estimates of the losses from looted shops and wholesalers come to about $1bn (excluding vehicles).

● The Iraqis removed machinery and stocks from petrochemical plants and other factories. Initial estimates of losses amount to about $1bn.

● There was unquantified damage to other sectors, including education and health, water supply and garbage disposal systems, and agriculture and fisheries. Hidden losses include the damage caused by lack of maintenance, and, above all, the damage to the country's oil reservoirs as a result of uncontrolled gushing from sabotaged wells.

The UN concluded that it would take "enormous investments" of money and manpower to restore Kuwait's economic output to the pre-war levels of early 1990.

Estimates suggest Kuwait will have to spend about $20bn on reconstruction

"Finally," the report says, "but by no means least important, is the range of unquantifiable losses arising from the downgrading of health facilities, the depletion of the national cultural heritage, the irreplaceable school year lost to all students and, of course, the degradation of the environment. Not one of these can even remotely be assessed in finite figures but their impact will be felt by Kuwait for generations to come."

Victor Mallet

The advance party of USACE. The corps has been described as 'the largest design and engineering organisation in the free world'

■USACE: jacks of all trades billeted on the 18th floor of a hotel

Responsibility before dollars

THE lack of food, water, power and virtually every service was incentive enough to spur the advance guard of the US Army Corps of Engineers (USACE) into prompt action on its arrival in the city after liberation. But the fact that its assigned hotel billet was on an 18th floor where the lifts did not function must have quickened the sense of urgency.

"By the time we'd carried our luggage and gear all the way up there, we certainly had the calf muscles for the job," says one of the first arrivals.

In fact, the 126 USACE staff who arrived days after liberation to help mend Kuwait had behind them the collective muscle of what its public relations officers describe, without too much exaggeration, as "the largest design and engineering organisation in the free world".

Since USACE's birth in the Second World War the corps' staff – now 44,000 people worldwide – have become the US forces' jacks of all trades, responsible for anything from clearing up after natural disasters to building military bases, including over the years almost all those in the Gulf used to launch Operation Desert Storm.

In recent years, the corps has cleared up after US forces in Panama, offered emergency help to the victims of Hurricane Hugo and co-ordinated the response to the San Francisco earthquake.

Its staff, claims Colonel Ralph Locurcio, the corps' commander in Kuwait, comprises highly trained engineers who could probably double their $40,000-$50,000 salaries in the private sector but, he says: "They prefer responsibility to dollars." So who better to call on to fix a broken city state?

The Kuwait government's choice of USACE to handle emergency reconstruction grew out of the formation in Washington, during the early occupation, of the Kuwait Task Force, a joint planning and liaison team with senior US army civil affairs reservists. By late December 1990, USACE had been charged with assessing the damage and awarding the first contracts for the emergency repair of Kuwait.

The corps' recovery work is set to end in December but its presence in the emirate will not

By January USACE had set up a forward base in Dhahran, eastern Saudi Arabia. It had two men in Kuwait City 48 hours after liberation and the corps' full team of engineers began their assessments by 8am on March 5, costing repairs for everything from bombed airbases to broken windows in police stations.

In the dark disarray of Kuwait's first free days, the corps' headquarters in the Plaza Hotel became in effect the city's sole functioning executive body. Its task was to estimate damage to power and water plants, sewers, roads, bridges, hospitals, schools, police and fire stations, ports, the airport, all state and ministerial buildings and then contract emergency repairs on the spot.

If the corps was, for the first few days at least, a sort of limited and interim military government, Col Locurcio insists that it was always working with and for the arriving Kuwaiti officials. "We were just acting to give the government a chance to get their staff back and handle the system themselves," he says.

USACE is, with the exception of its particular expertise in constructing military bases, essentially a management contractor, and while selection of the corps for its role in post-war Kuwait appeared wholly natural to the state's government, it was not without controversy elsewhere. Surely, critics said, the corps will simply serve up all the juiciest emergency contracts to US companies.

The corps bridles at the charge and insists that its assessment of the thousands of bids which rained in on its temporary offices in Dhahran was fair and non-political. Nevertheless, even if US contractors in the end won no monopoly on the first emergency contracts, the earliest USACE deals did reflect national contributions to the war effort.

Of the first eight contracts awarded by USACE from its start-up budget of $45m, four went to US companies (Brown & Root, American Dredging and two to Blount), two to Saudi groups (Khudair Group and Al Harbi Trading), and one each to a British company (Morrison Construction) and a local Kuwaiti contractor (Kharafi). Few of the deals much exceeded $2m, with the remainder of the money going towards some smaller subsequent contracts and USACE's overheads.

'By the time we'd carried our luggage and gear up there, we certainly had the calf muscles for the job'

The corps' original mandate ran to a 90-day emergency period but, although the damage to Kuwait was far less than USACE engineers had feared before arrival, it was clear from the outset that there would be work to keep them in the country for more than three months. The initial $45m was upped in April by $30m and by June a further $339m had been added to the corps' budget, for a programme set to run until December.

Much of the additional money has been allocated to existing contractors as they uncover more necessary repairs in the course of their work. Morrison Construction, for instance, began with a $2.6m contract for repairs to water and sewage distribution systems. It has since received at least $2m worth more work from the corps' second tranche and hopes to win an extra $10m of work from the latest allocation.

The corps' priorities have shifted. Now that the earliest repairs have provided enough power and water for most Kuwaitis, USACE has handed responsibility for permanent repairs in these sectors to the government. Meanwhile, USACE is issuing some $200,000-$500,000 contracts for the repair of state buildings.

Most contracts from the corps' final cash allocation will be spent on companies already in place. "We need speed," says Col Locurcio. "They have got to go to people working here who already have the supply lines and labour." At the same time, though, the tendering process has shifted to the corps' headquarters in Winchester, Virginia.

Although the corps' recovery work is set to end in December, its presence in the emirate will not. The small USACE office which existed in Kuwait before the invasion will be upgraded and, indeed, could be the recipient itself of one of the plum deals in Kuwait's reconstruction.

Mention of the repairs necessary to Kuwait's devastated defence installations brings a twinkle to the eyes of the corps' commanders. Both Kuwait's main airbases were wrecked by allied bombing, while little was left of its navy base and four brigade camps. US officials reckon that contracts to make them good and new could be worth a billion dollars.

Kuwait is in the earliest stages of assessing its future defence policy and the US is working closely with the ministry of defence to determine the structure and likely procurement needs of the armed forces. USACE in Kuwait has, meanwhile, recently come under the command of the defence reconstruction assistance office, essentially the Kuwait office of the Pentagon, which is co-ordinating such discussions.

The odds on USACE securing a hefty chunk of any defence rebuilding contract must therefore be short.

Mark Nicholson

■POPULATION: new policies leave questions unanswered

Blemishes on a clean sheet

ONE of the Kuwait government's earliest policy decisions after liberation – and one of the few to be publicly aired – was that the population of the new Kuwait should be restricted to half its pre-war level of just over 2m people.

The government's thinking was that after liberation, Kuwait could start drawing up its population and workforce policies on a clean sheet. Three months on, that clean sheet has been filled not with a coherent policy but with a series of difficult, unanswered questions.

Behind the desire to slash the state's population lay two longstanding Kuwaiti concerns: that the country's workforce was flabby and unproductive; and that Kuwait's immigrant community, which was the majority of the population, was a potential security risk.

In particular, Kuwaitis cast suspicious eyes on the country's 400,000 or so Palestinians, who were distrusted in their adopted home well before they were accused of collaborating with the Iraqis during the occupation.

That their number in Kuwait will be slashed is so far the sole certainty of Kuwait's population policy.

A feeling among Kuwaitis, who before the war constituted a third of the country's population and about 17 per cent of its 690,000-strong workforce and which is guiding the government is that they should enjoy a natural majority in their home land.

Many Kuwatis say this sentiment was reinforced by greater patriotism following the mortal threat to their country's sovereignty.

The aim to control Kuwait's population long pre-dates the war. Like all the Gulf states, Kuwait wanted to reduce its dependence on immigrant workers.

The government aired a plan in the late 1980s gradually to trim the immigrant community and to leave the country's 700,000 or more Kuwaiti citizens in the majority by 2000. By the end of the war, the flight of hundreds of thousands of foreign workers suddenly appeared to have put this goal readily within Kuwait's grasp.

Or so it may have looked on paper. In fact, putting into practice such a startling demographic change would have sharp, and often uncomfortable effects on the lives of most Kuwaitis.

On the evidence so far, few appear eager to embrace such changes overnight, if ever.

The straightforward implication of cutting the immigrant population is that more Kuwaitis would have to do more work – and types of work, in particular, towards which they have shown no previous inclination.

Almost without exception, for example, manual labour in the emirate has been performed by the hundreds of thousands of Indians, Pakistanis, Filipinos, Thais and others who have left their poor home countries to seek the relative fortunes of Gulf salaries.

Although much play was made just after liberation of the "new Kuwaitis" who were picking up tools and getting on with the job themselves, fired with a determination to forge their country's new future, such Kuwaitis are nearly impossible to track down.

Most have returned to their senior jobs in the government, which employs more than 80 per cent of working Kuwaitis.

Moreover, most Kuwaiti households have traditionally relied on maids, chauffeurs and servants and here again, old habits appear to be alive and well.

Such is the demand for new maids to replace those who have fled that agent's fees for domestic servants have doubled since liberation to an average of KD300 per worker.

As one sceptical Kuwaiti merchant put it, only half jokingly, the country's predilection for maids might alone bust the government's population plans.

"There are 700,000 Kuwaitis," he says. "That means at least 500,000 maids for a start. The population will come back to the old levels even if you just look at the domestic side of things."

Moreover, the government has so far done nothing to curb the importation of fresh manual labourers.

Although there was speculation early after liberation that the government would introduce a strict regime of limited-term work permits for such migrants, the idea has been largely crushed under the feet of arriving workers. Hotel managers, construction contractors, power, water and other plant operators have all been recruiting and importing workers from the Philippines, Thailand and the Indian subcontinent with no hint of official opposition.

In fact, the sole government action to enforce any population control remains its de facto policy of clearing the country of Palestinians. There is no question that the majority who left during the occupation will not be permitted to return. The remainder, a further 150,000, are meanwhile being pressed very hard to leave.

In the words of Mr al-Ghanim: 'As in every welfare state — and we have the ultimate welfare state — *its effect is to create a lazy, unmotivated population*'

The manner of this pressure is the largest blot on the government's post-war ledger. Hundreds of Palestinians have been physically deported into Iraq against their will, against the Geneva convention and against the terms of the ceasefire agreement with Iraq. Those who remain live in fear of being rounded up or detained at police checkpoints which appear to exist expressly to continue a sustained policy of weeding out those believed to have collaborated.

With few exceptions, Palestinians working in the public sector have been sacked. And though many employers in the private sector have remained loyal to some of their Palestinian employees, many have followed the government's suit. Most of Kuwait's Palestinians are trying to leave, with their old jobs gone and little prospect of new employment. Western diplomats suggest that before too long a rump of only 50,000 may remain in the emirate.

The likely mass exodus of Palestinians raises the largest of all questions surrounding Kuwait's labour policies, since Palestinians have for decades provided the core of the emirate's professionals, technicians and middle-managers.

Palestinians taught in the schools, managed the banks and trading companies and helped run the country's utilities and oil industry.

"The thought that the Palestinians might all have to leave fills contractors here with horror," says one British executive, reflecting the widespread view that their departure could leave an unmanageable vacuum in the short term.

So far the government has said little about how it wishes to see this vacuum filled. But where government thinking is discernible, it points to a policy of substituting the ejected Palestinians by others rather than of seeking to keep the working population down and increasing productivity.

An offer from Bahrain to provide up to 300 bankers is being considered, for example, and the government is keen to see crèches installed at schools if it will tempt Kuwaiti women to become teachers. There is talk of filling vacated public sector posts with Egyptian bureaucrats.

"The Government says it wants Egyptians or other Gulf Arabs," says one western diplomat. "But so far they've done no more than express a preference."

Likewise, in the private sector, employers are looking to replace rather than retrench. Mr Bassam al-Ghanim, one of the country's leading merchants, says he expects to fill vacated posts in his large business network within six months, and is even looking to increase staff levels.

There is little sign of Kuwaitis rushing to fill the void – particularly in the private sector.

Kuwaitis have so far shown no will to desert the secure tenure, undemanding working hours and assorted perks of public sector work for the riskier option of the private sector.

"The private sector just can't attract Kuwaitis," says Mr al-Ghanim. "We can't offer the cradle-to-the-grave security blanket offered by the government."

Just three months after liberation, therefore, the government's professed plan to curb the population looked in jeopardy.

By the government's calculation, the state's population had by then reached nearly 1.2m. Even allowing for the departure of a further 100,000 Palestinians there appears little prospect of keeping the lid on substantial further growth.

With more than 300,000 Kuwaitis still to return and the task of reconstruction, with the many hands that will require, still just beginning, a population of nearly 2m by the year's end looks very hard to avoid.

Creation of the "new Kuwaiti", worker also appears likely to prove an illusion.

In the words of Mr al-Ghanim: "As in every welfare state – and we have the ultimate welfare state – its effect is to create a lazy, unmotivated population."

Mark Nicholson

Kuwaiti refugees, held in Iraq during the war, crossing the border near Safwan, Iraq, after their release in March

A dairy, taken over by mullahs, was a centre for the resistance

Churning out weapons

WITHIN a few days of Iraq's invasion by Kuwait, the largest dairy plant in the Middle East had been taken over by Kuwait's mullahs and turned into a distribution centre of essential food supplies.

The religious leaders found out quickly how to run the Kuwaiti-Danish dairy's sophisticated production equipment, and set up a distribution network serving the co-operatives with dairy products made from powdered milk.

The dairy was the largest in the world to use powdered milk and the most modern in the Middle East.

Iraqi soldiers visited the co-operatives to pick up milk supplies, unaware that the dairy's milkvans were also being used to distribute weapons and ammunition for the resistance.

Until just a few weeks before the end of the occupation, the Iraqis also remained ignorant of what was going on back at the dairy. Devaluation of the Kuwait dinar to parity with its Iraqi counterpart, followed by the banning of the Kuwaiti currency, prompted what one observer calls an "imaginative, wonderful and hopeless" scheme to turn out millions of Iraqi banknotes good enough to fool the average Iraqi conscript.

When the Iraqis found out that the dairy was the centre of an operation that had given the Kuwaiti dinar premium value, they burned the dairy and imprisoned Mr Essard Jaafar, the dairy's chairman and driving force.

Apart from the basement, used to store a year's supply of sterilised (UHT) milk for the growing Kuwaiti market, only the dairy's administrative building escaped destruction.

"Everything was so secret," he adds.

Helped by the long-standing relationship between the Danish company and the dairy, a framework agreement for a \$20m-\$35m reconstruction was recently agreed, split roughly equally between new equipment and building work.

The first stage will involve temporary production in the basement, using APV equipment which will arrive around the end of this month, but the dairy has made preliminary arrangements to restore its market presence. The plant should be operating fully by the autumn of 1992.

Iraqi soldiers visited the co-operatives to pick up milk supplies, unaware that the dairy's milkvans were being used to distribute weapons and ammunition for the resistance

The task of rebuilding the dairy has gone to APV DTD (Danish Turnkey Dairies), part of the APV food processing equipment concern. DTD built the original plant in 1983 – the dairy was part-owned for a while by the Danish dairy industry federation – and added a second stage five years ago.

Executives from APV DTD made contact with Mr Jaafar soon after his release, and were among the first to reach Kuwait after the war ended. Mr Jens Pauli, managing director, says they tried without success to find out from US forces why the dairy had been destroyed.

The company says reconstruction will call upon all its expertise under the difficult conditions in Kuwait, but Mr Pauli says things are improving rapidly.

The initial infrastructural problems have been surmounted, and it is possible to telephone or send faxes to the dairy from APV DTD's base in Aarhus.

The company's part in the reconstruction will involve supplying about £10m of equipment, most of which will be manufactured by APV. Although the sum is small in international contract terms, Mr Pauli says the dairy industry does not often spend that amount on equipment.

Mr Pauli is keen to restore the dairy to its position as a showcase for APV's food equipment technology, and the new equipment will incorporate recent developments in packaging and automation. "The dairy has always been a good reference plant for us," he says.

The Middle East market for dairy products is growing fast, and APV has an 85 per cent market share in Saudi Arabia.

The company is doing a lot of work in Iran, but Mr Pauli says it is too early to consider going back into Iraq where an employee was one of President Saddam's foreign hostages.

The dairy seems to have had many uses during the occupation.

New Zealanders stuck in Kuwait, including the dairy's laboratory manager Mr Alistair Lane, reportedly used it to photocopy an underground newsletter written by Britons. Mr Lane finally went home in November.

Andrew Baxter

REBUILDING KUWAIT 9

■THE PALESTINIAN PROBLEM: drive to arrest and punish worries human rights activists

End of a long and fruitful relationship

KUWAIT'S persecution of its Palestinian residents since the country was liberated from Iraq in February is well-documented. Human rights groups have accused the security services of killing and torturing Palestinians, and Sheikh Saad al-Sabah, the crown prince, has admitted that the attempt to arrest and punish those who collaborated during the occupation has been marred by human rights abuses.

The persecution has tarnished Kuwait's reputation abroad and all but ended a long and fruitful relationship between the privileged citizens of Kuwait and a community of skilled and hard-working Arabs who lacked another home.

Palestinians migrated to Kuwait after the creation of Israel in 1948, and became the largest non-Kuwaiti population group, numbering perhaps 400,000. Mr Yassir Arafat, leader of the Palestine Liberation Organisation, who supported Iraq during the Gulf crisis and war, earned his living as an engineer in the Kuwaiti civil works department in the late 1950s. He established his own small building company and founded Fatah, the main faction of the PLO, during his stay in Kuwait.

Few Palestinians were granted citizenship by Kuwait, even if they were born in the country or had lived in it all their lives. Before the invasion Kuwait had started to apply its residency rules with increasing strictness, forcing retired Palestinians to leave after a lifetime of service. But Kuwaiti men occasionally married Palestinian women and Kuwait was the Arab world's most generous contributor to the Palestinian cause.

Today there are no more than 150,000 Palestinians in Kuwait, and it is thought that this number will quickly fall to a core of 15,000 workers and their families, or about 50,000 in all. Those outside the country at the time of liberation have not been allowed in, and many of those inside are in any case trying to leave as soon as they can wind up their financial affairs.

Palestinians, many of whom have Jordanian passports, are repeatedly harassed at roadblocks, although they say the worst abuses which followed the liberation have apparently come to an end. Suspected collaborators have been expelled into Iraq or hurriedly tried in a martial law court and in some cases condemned to death. Most of those working for the government have been sacked.

"My father worked in the government for 30 years," says one Palestinian accountant. "But they kicked him out. Maybe in another country he would have been a minister."

Kuwait's Palestinians, deprived by Israel of the land they really see as theirs, do not admire Mr Arafat or President Saddam Hussein, but they have an ambiguous attitude towards Kuwait. On the one hand, they believe they have a stake in the place because their skills helped to build it.


The view from the outside: people from the predominantly Palestinian neighbourhood of Hawally seeking exit visas to leave Kuwait (left). Men accused of collaborating with the Iraqis sit in a cage before their trial in May

On the other, they agree that if they had Kuwaiti passports they would think of themselves as Palestinians with Kuwaiti documents, not as true Kuwaitis.

Indeed, many Palestinians are scornful of what they regard as the backward and uneducated Bedouin citizenry of the Gulf states. One Palestinian said that if Iraq invaded again, the Palestinians would use the opportunity to take revenge on the Kuwaitis for the post-war repression – an argument which appears to justify the al-Sabah family's distrust of Palestinians.

During the Iraqi occupation, there were Palestinians who supported the Kuwaiti resistance, helped western hostages to escape, and kept the country's essential services running. There were some who collaborated with the Iraqis, and it was these – together with pro-Iraqi Palestinian demonstrations in Jordan and the statements of Mr Arafat – which caused the Kuwaiti government to be suspicious of the entire community.

Most Palestinians admit that there was some collaboration by "Kuwaiti" Palestinians as well as by Iraq-based followers of Abu Abbas, the extremist guerrilla leader. One man even tells how a fellow Palestinian informed on him because he was driving a car with Kuwaiti rather than Iraqi number plates.

The future is bleak. In the civil service, only the ministries of electricity and of health have re-employed their Palestinian workers – for the time being. In the private sector, Mr Bassam al-Ghanem, head of the al-Ghanem Industries conglomerate, has become a hero to Palestinians by leading a private sector drive to keep skilled members of the community in their jobs. Other merchants, however, have expressed concern about customer dissatisfaction with companies which retain Palestinian staff.

More than a fifth of the staff of the National Bank of Kuwait used to be Palestinian, but that figure is certain to fall. Mr Ibrahim Dabdoub, the Palestinian chief general manager, was (at the time of going to press) waiting discreetly in London and running the bank's international business.

Palestinians, some of whom became senior civil servants, would like to think that they are irreplaceable but – even if foreign businessmen regard the idea of replacing them with bureaucrats from Cairo as peculiarly horrifying – there are probably plenty of Egyptians and Lebanese willing and able to fill their shoes. "The world is a big market place," says Mr al-Ghanem. "Nobody is irreplaceable."

Even the business of leaving Kuwait is difficult. Some Palestinians are afraid to go to the immigration centre at Shuwaikh for fear of being arrested. Others, who were theoretically forbidden to own property or businesses by Kuwait's foreign ownership regulations and therefore had to operate through Kuwaiti front-men, are now trying to extricate their assets. Many are owed substantial end-of-contract gratuities by their employers, and are wondering whether to continue exhausting their savings while waiting for the money.

Neither the Saudis nor the Kuwaitis have been allowing Palestinians to drive through Saudi Arabia into Jordan, leaving them to be fleeced by Iraqi soldiers on the journey through Iraq. Many do not particularly want to go to Jordan anyway, particularly since unemployment there is high and young men will be liable for national service.

The Kuwaiti government, however angry it may be about a handful of collaborators, has little reason to be satisfied with its handling of an internationally sensitive humanitarian and political problem.

"It's suicidal because we are losing international sympathy and gaining more Arab animosity," says Mr Abdullah Nebari, an opposition leader. "The next Saddam will find his way very easily. That's what Saddam banked on and he failed – he thought there wouldn't be enough international sympathy to resist him by force and he thought the Arab countries would side with him."

As for the Palestinians they have despaired of the west, of their fellow Arabs and often of their own leaders. They feel betrayed on all sides. Asked who should bear responsibility for the fate of the Palestinians in Kuwait, one of them replied: "I blame everybody."

Victor Mallet

■BIDOUN: the Arabs without a state

Unsung victims of war

THE grizzled Kuwaiti traffic policeman was astonished, angry and grief-stricken, cursing his fellow-Arabs and expressing a forlorn desire to emigrate to the US.

Standing at the Iraq-Kuwait border last March, he said he had been kidnapped by the Iraqis and eventually freed by the Shia Moslem uprising in southern Iraq. He was now on the way home to his family in Jahra, west of Kuwait City, but the Kuwaiti troops, young and arrogant, would not let him into the country.

He is probably still at the border, in a camp with 5,000 others who cannot enter Iraq or Kuwait, for he is a *bidoun* one of the tens of thousands of stateless Arabs who live in Kuwait. The *bidoun* derive their name from the Arabic word for without, which appears under the heading of nationality on their identity cards. By an accident of history they are not Kuwaiti citizens. They are the unsung victims of Iraq's failed attempt to seize Kuwait and Kuwait's poorly-directed revenge.

Many Kuwaitis, including the ruling family, have lumped them together with Palestinians as a community supposedly guilty of collaboration during the Iraqi occupation. Like the Palestinians, they have faced arrest, mistreatment, humiliation and discrimination since Kuwait was freed, but they cannot call on the sort of political organisation or international band of sympathisers available to the Palestinians. Few of them speak English.

Like the Palestinians, they were being squeezed long before the Iraqi invasion. In some ways they were worse off, with no access to the civil identity card needed for everything from driving a car to getting married. Instead, they joined the armed forces and the security services as privates and policemen. Even those jobs are under threat for some *bidoun* following the decision by Sheikh Saad al-Sabah, the crown prince, to screen the *bidoun* in the military and weed out suspected collaborators.

Kuwaitis argue that many *bidoun* are of Iraqi origin and are known to have hidden away Iraqi, Syrian and other identity documents to take advantage of Kuwait's welfare state.

It is true that some are of Bedouin Iraqi and Syrian origin, while others trace their roots to Saudi Arabia or Iran. But many were born in Kuwait and have links to Kuwaiti families. There is even a law which empowers the government to grant Kuwaiti citizenship to *bidoun* born and educated in the country.

Thousands of *bidoun* are loyal to Kuwait and the ruling al-Sabah family, and there is widespread suspicion that they are being persecuted by Kuwaitis trying to hide their own cowardice and incompetence during the Iraqi invasion. "The only people who took up arms when the whole military command was fleeing were *bidoun*," says one western diplomat in Kuwait.

Kuwaiti opposition leaders, who say that the *bidoun* would settle for something less than full citizenship (the right of residence, for example), want the government to resolve the matter as soon as possible. The danger facing Kuwait is that it will alienate yet another Arab community at a time when it should be securing friends and allies for the future.

Victor Mallet

■OIL: departing Iraqis ignited some 600 wells and damaged 100 others — the government estimates 6m b/d are going up in smoke

It's a battlefield, a burning oilfield and a desert

THE blazing oilfields are among the most terrifying places on earth. In the southern Greater Burgan field, the sky is pitch black with soot, the ground oozes with oil and the wells are surrounded by live munitions. The well fires shriek into the sky, some shooting flames 300 feet into the black.

The danger in the oilfields cannot be overstated. Two Financial Times journalists, David Thomas and Alan Harper, were killed in the al-Ahmadi field when their car was engulfed in smoke and flames in April while working on this survey. "It's a recent battlefield, it's a burning oil field and it's a desert," says one oilman. "And any one of those can kill you."

The government has reported some early progress in resuming oil production

No-one knows exactly how many of Kuwait's more than 900 oil wells were damaged by the Iraqis – conditions in Burgan are too dangerous to take a full count. The best guess of Mr Hamoud al-Roqba, the Kuwaiti oil minister, is that before they left, the Iraqis ignited 600 wells and wrecked nearly 100 others, leaving them gushing crude over the desert.

US oil workers tightening bolts on a damaged well in the Burgan field

Estimates of how much of Kuwait's vast reserves of 94bn barrels are going up in smoke are also guesses. The government's figure is 6m barrels a day, more than three times Kuwait's production before the invasion, though some oil industry experts say it may be nearer 3m b/d. If the government is right, the wells have been burning about $5m-worth of oil an hour at present prices.

Gradually Kuwait's oilfields are being tamed. By the end of last month, the four North American blow-out companies working in the southern fields had capped nearly 200 wells, and Kuwait had once again begun to produce oil, albeit in small quantities. "I'm seeing more progress than I thought I would at this stage," says Mr Mike Miller, president of Safety Boss, the Calgary-based blow-out team which has been capping about a well a day since May.

While Mr al-Roqba speaks optimistically of having most wells under control by March, the firefighters are less sanguine: "Which March?" was the laconic remark of one. "It's going to take years to do all of them," says Mr Red Adair, who at 76 years old has spent 50 of them tackling blow-outs. "I've said it'll take five years and I hope I'm wrong. But in my experience it's going to get harder and tougher."

To date, the only groups actually fighting the fires remain those initially contracted by the Kuwait government in February: Red Adair, Boots & Coots and Wild Wells Control from the US and Safety Boss from Canada. By August, each company will have doubled the number of teams in the field from two each to four, while the government is awarding further contracts to contractors from other countries to accelerate the work and begin tackling the northern fields.

A team of 50 firefighters from the National Iranian Oil Company is due to start work this month in the Greater Burgan area, while the Kuwait British Fire Group, a joint venture of Wimpey, Amec and Taylor Woodrow, has just completed a report on 70 wells in the northern Sabriya field and hopes to win a contract to begin capping them this month. Kuwait is also considering offers of help from France, the Soviet Union, China and Romania.

Firefighters are capping wells near the oil gathering stations that can be repaired

While the number of active firefighters should more than double by next month, the rate of capping, which averaged 15 a week in June, will not necessarily increase.

Although the firefighters say they are happy with their progress, and are less hamstrung by the shortages of heavy equipment about which they complained so loudly at the outset, the hardest wells remain to be tackled. "We've only just rolled up our sleeves for the hard stuff," says Mr George Connan, a wellhead firefighter with Safety Boss.

To use the firefighters' own jargon, they have extinguished most of the "cripples" (so called because they are "not very well wells," one explained) – where the wellhead remains substantially intact and easy to approach. Many of the remainder, though, are "cokers", where the wellhead is buried beneath mounds of burning residue from the spilling well. The biggest of these resemble mini-volcanoes, alight over thousands of square metres.

Attacking the cripples is relatively straightforward. After dousing the area with water for half an hour to make it cool enough to approach – ground temperatures near some fires can reach 500° farenheit – the fire is usually attacked either with water or snuffed with nitrogen, administered through a chimney rammed over the flame. Safety Boss has doused all its fires using "Purple K", a fine powder of potassium bicarbonate hosed into the flame which, like the nitrogen "snuffer", deprives the blaze of oxygen.

These fires can sometimes be extinguished in minutes. The tough part, and what the firefighters claim is their true art, is capping the well.

To do this, the firefighters must work right up against the gushing wellhead, covered head to foot in crude oil – a task they say requires guts, a strong back and a good deal of ingenuity. "I don't think I've seen men working in worse conditions," says Mr Adair. "It's too dark to see, the smoke swings round without warning and men can just get lost."

So far, none of the firefighters has been seriously injured, although one or two men have suffered burns. But Mr Adair remains critical of the Kuwait government's support for the firefighting effort – "we need more equipment and proper medical services here, my men are risking their lives". He says he is surprised that no-one from the government or ruling family has been down to express their gratitude for the mens' dangerous work. "It's not as though we're earning millions for this," he claims. "We're just being paid what we would for any normal job."

In most cases capping is accomplished by inserting a steel "stinger" – which resembles a big, hollowed spike – into the wellhead, then pouring down drilling fluid and cement to staunch and then cap the flow. In other cases, large lead flanges are beaten on to the top of the wellhead.

The sky is black, the ground oozes oil, the wells are surrounded by live munitions

Velco Gray, the engineering group, has set up a metalworks in Al-Ahmadi to tailor the stingers and flanges as near as possible to each well – part of what is now an extensive back-up service put in place by Bechtel, the management contractor for the firefighting effort in the southern fields.

The cripples can take just one or two days to extinguish and, in June, firefighters were in many cases able to put out a fire one day and cap it the next. However, some highly coked fires will, they say, take weeks or even months each to put out.

To uncover what remains of the wellhead beneath the flaming crust of coke requires a long and dangerous earth-moving operation using towering 100,000lb bulldozers. In some cases fire teams have used explosives to remove the coke. "We have a whole new ball game in front of us," says Mr Adair.

The problem of "cokers" will be greatest in the northern fields where wells will have been burning for more than four months by the time blow-out teams begin work on them.

Gushing wells in the north have also been flowing untrammelled since late February, filling growing pools of oil which further jeopardise the firefighters' task – not least because the lakes hide unexploded ordnance.

Royal Ordnance, the British Aerospace company, is working to clear the oilfields in advance of the firefighters, and has so far kept ahead of them. They admit, though, that they are still examining ways of dealing with the oil lakes: "Someone is going to have to come up with something very clever indeed," said one ordnance expert.

If quenching the remaining oil fires may prove a slow process, the government is at least able to report some early progress in resuming oil production.

This the government has now made the priority and firefighters are capping wells near the oil gathering stations that can be repaired. At first the firefighters were asked just to put out whatever they could to reduce the smoke from the southern field which has turned some of Kuwait City's days into night.

In late June, Mr al-Roqba said that output from offshore wells in the neutral zone, the territory shared with Saudi Arabia, had reached 130,000 barrels a day and that two tankers of crude, each carrying 770,000 barrels, had been exported. Revenues from this oil is split between Saudi and Kuwait.

The repair of a gathering station in the Ahmadi field had also brought 30,000 b/d on stream, a figure expected to rise to 50,000 b/d by late July.

By October, Kuwait hopes to be able to produce and refine enough oil to meet its domestic needs, some 130,000 b/d. No-one, however, will risk predicting when Kuwait will be able to approach pre-war production levels around its Opec quota level of 1.5m b/d. Mr al-Roqba says only that some exports from Kuwaiti wells in the southern fields could begin before the years' end.

If the government is right, the wells are burning about $5m worth of oil an hour

Until it does, the emirate is approaching its fellow Gulf Co-operation Council states for a subvention of 800,000 b/d to supply its overseas refineries. Initial requests, made under the terms of a GCC agreement, have been rebuffed, but discussions are continuing.

Iran, meanwhile, has offered an undisclosed quantity of crude for Kuwait's refineries – a proposal the government is giving serious but wary study.

Mark Nicholson

BECHTEL GROUP

Large pool of experience

LONG before the liberation of Kuwait, Bechtel Group was working on plans for the post-war restoration of the emirate's oil production. When the Gulf war ended, it came as no surprise that the San Francisco engineering and construction group was quickly identified as the company that would take charge of rebuilding Kuwait's oil and gas industry.

Bechtel has a long history of working in the Middle East. Kuwait has been a customer for the past 45 years, the company says. Bechtel entered the Middle East oil construction business in 1943, building refineries and pipelines around the region. In 1945, Bechtel built the first crude-oil refinery for the Arabian American Oil Company – formed by Chevron, Exxon, Texaco and Mobil – in Ras Tanura, Saudi Arabia. In 1950, the company built the 1,068 mile Trans-Arabian pipeline, linking the Saudi Arabian oil fields to the Mediterranean.

Since then, the company has worked on over 400 projects in the region including oilfield development in Libya and pipelines and oil terminals in Iraq, Syria and Egypt.

Bechtel is one of the primary contractors in Jubail, the new Saudi Arabian industrial city, where it has been responsible for construction of airports, hotels and desalination plants. Bechtel Petroleum, Chemical and Industrial company is completing the management of an offshore oil facility in Qatar. Last year the company was awarded project management of an onshore oil filed development project in Abu Dhabi.

Bechtel Civil Company is managing the construction of King Fahd International Airport in Dhahran, Saudi Arabia. While the airport is not scheduled to open for another two years it was pressed into immediate military services by allied troops during the Gulf war. The first runway at KFIA was readied for aircraft landings in a record four days.

Last year, "we were in Saudi Arabia and other Gulf states working, as we have since the 1940s, to help develop their petroleum and gas resources, build community infrastructure, and increase vital water supplies," says Mr Riley Bechtel, the company's president and chief executive.

"When war came, we did not interrupt our service to even a single customer. In response to requests from Saudi Arabia and Kuwait, as Desert Shield turned into Desert Storm and the liberation of Kuwait neared, we marshaled additional resources. In the early months of 1991 we helped begin damage assessment and plan the post-war restoration of Kuwaiti oil production," says Mr Bechtel, whose great grandfather founded the Bechtel group in 1898.

Bechtel has "contracts to do some post-war work in Kuwait and Saudi Arabia," says the company. The privately-held company has released very few details. However, the company is known to be responsible for managing the effort to get Kuwait's devastated oil fields back into production.

Estimates of the cost of this job range anywhere from $6bn to $12bn over a period of years. Bechtel specialises in "mega-projects" such as the Eurotunnel, and overseeing the construction of Hong Kong's new airport and public transport network.

The Kuwaiti oil industry reconstruction project is expected to become the company's largest contract. In addition, Bechtel is bidding for a billion dollar project to build a new desalination and electricity plant in Dubai, a coastal city in the United Arab Emirates. Bechtel's partners in this bid are Mitsubishi of Japan and General Electric of the US.

Bechtel has won a contract with Crowly Maritime, of Oakland California, to help clean up war-related oil spills in Saudi Arabia. However, Bechtel's biggest challenge is to manage efforts to douse the inferno of fires throughout Kuwait's oil fields. The task has been made exceptionally difficult by the disruption of communications and transportation caused by war damage.

Another serious problem is the lack of water, because Iraqi forces damaged or destroyed water pipelines linking the oil fields to the Gulf. This may be one of the most difficult projects undertaken by the company. Getting equipment and supplies to firefighters working in the Kuwaiti oil fields has proved to be a serious problem. Urgently needed equipment has been delayed at the Saudi-Kuwaiti border, according to Bechtel.

Mr Red Adair, the Texas oil well firefighter is among those that have placed blame in part upon Bechtel for delaying progress in putting out the Kuwaiti oil field fires. In recent testimony before a US Congressional task force, Mr Adair said that Kuwaiti efforts to extinguish the hundreds of fires in its oilfields are a "Mickey Mouse" operation hampered by inadequate equipment and insufficient water supplies.

Firefighters are still waiting for heavy-construction bulldozers, backhoes, cranes, more than 300 trucks and a host of specialised, smaller tools that were ordered last November. Another problem is that land mines and explosives in the oil-fied areas have slowed Bechtel's efforts to lay emergency pipelines to supply water to the fire fighters.

Although the war has created new business opportunities for Bechtel, the engineering and construction company suffered along with the rest of the industry during the uncertain months prior to and during the war. Bechtel suspended work last spring on an Iraqi petrochemical plant near Baghdad on the advice of Mr George Shultz, former US secretary of state and a Bechtel board member.

When hostilities broke out many customers put new projects on hold, the company says. As a result, total new work booked fell to $4.8bn in 1990 from $5.4bn in the previous year, the company says.

Louis Kehoe,
San Francisco

■THE OIL MARKET: a more discreet Kuwait may emerge within Opec

Foreign policy tool has been blunted

THE oil industry may get back on its feet within a couple of years, but whether Kuwaitis will sleep easy in their unstable corner of the Gulf is another matter: a more modest, less divisive policy within the Organisation of Petroleum Exporting Countries (Opec) can therefore be expected from Kuwait.

For years the country has pursued a low oil price strategy which it portrayed as a way of sustaining long-term world demand for oil, although its rivals saw Kuwait's stand as a thinly-disguised foreign policy tool.

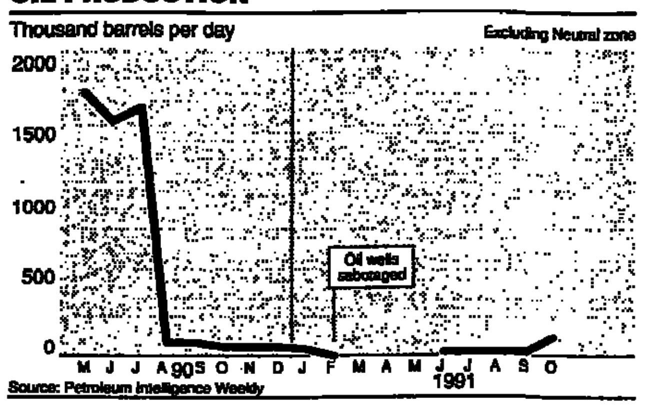
"I don't care if the price goes down to $5 a barrel," joked Sheikh Ali Khalifa al-Sabah, the former oil minister, undiplomatically at one Opec meeting a few years ago. That was typical of a man used to having the world of oil at his feet. But ignoring Iraqi table-thumping last year blew up in his face when President Saddam used low oil prices and quota-busting by Kuwait and the United Arab Emirates as two of his excuses for invading.

Sheikh Ali, one of the most savvy personalities in Opec and one of the ablest of the al-Sabah family, is out of the government, and the oil industry he oversaw is struggling to pump 100,000 b/d (including Kuwait's share of the Saudi-Kuwait neutral zone output).

Occupation and the sufferings of exile have taught Kuwait the hard way that having a wallet bigger than its punch was no way to win friends and influence people. Encircled by Saudi Arabia, Iraq and Iran, Kuwait's future would be better served by a lower profile when it comes to matters such as determining an oil price crucial to its more populous neighbours' economies. "At least he'll no longer be blowing cigar smoke in our faces," a North African Opec delegate remarked privately about Sheikh Ali while the Iraqi army was still camped in Kuwait City.

Today's Kuwaiti strategists recognise that tucking in behind Saudi Arabia's leadership and sticking with an Opec production quota pitched well below the country's true potential is a safer course. Kuwaiti delegates to Opec say that once the oil fires have been extinguished the country is unlikely to need to produce more than 1.5m b/d, its pre-war quota.

OIL PRODUCTION



Source: Petroleum Intelligence Weekly

Opec meetings with Sheikh Ali had some of the flavour of a poker game. With production of 2m b/d Kuwait was by no means the largest producer among the 13, but it held a handful of aces.

First, Kuwait did not need the money that badly; alone among the 13 Kuwait enjoyed a source of foreign exchange equal to or greater than oil – its overseas investments. Second, oil reserves of about 94bn barrels meant today's cheap oil would keep customers coming back for years to come. Third, Kuwait's Q8 petrol stations all over Britain, Germany, Italy and several other European countries meant that a few dollars lost on the crude oil price could be made up on the profit margins for refined products.

The downstream assets overseas are all still there, but at home the repair bill for the oil sector is expected to run to about $6bn. The priorities for Mr Hamoud al-Roqba, the new oil minister, just three months in the job, are to oversee the reconstruction and ensure that the country's domestic fuel needs are met. Meanwhile, being the leader of a delegation to Opec for a country which can so far hardly produce enough oil for itself is a fairly uncomplicated task.

Mr al-Roqba has to give progress reports on the oil sector recovery so that the other oil ministers can plot likely required output levels. His second mission is to sustain sympathy for Kuwait on the international stage and check any attempts by his Iraqi counterpart, Mr Osama al-Hitl, to do the same for Iraq.

The problems for Opec, which has pulled together under a Saudi-Iranian axis since the Gulf crisis began, will return once Kuwait and Iraq start producing again. Kuwaiti Opec delegates are confident that when the time comes, Saudi Arabia will brake production to allow Kuwait to return to its old quota. Iraq may have to fight somewhat harder to recover its old position as number two producer in the Opec rankings.

Saudi Arabia pushed up production by close to 3m b/d to just above 8m b/d to offset most of the lost production from Kuwait and Iraq. Opec delegates foresee the possibility that a combination of growing world demand for oil and Riyadh agreeing to trim output by about 1m b/d would smooth the way for Kuwait's and Iraq's full reintegration into Opec's quota system.

Countries other than Saudi Arabia may be less accommodating, and a repeat of the tough negotiations seen after the Iran-Iraq war ended three years ago can be expected.

Kuwait's oil production is expected to recover within two years, although you do not have to dig very deep to find more pessimistic views in the Kuwait Petroleum Corporation (KPC) hierarchy.

A KPC executive confided that production at 200,000 b/d by the end of the year was a fair projection but that the forecasts by Mr al-Roqba that most oilfield fires will be doused by March are too hopeful. The Mina Ahmadi oil refinery is due to come into partial operation within the next few weeks with an expected capacity of about 170,000 b/d, but a return to the pre-war capacity of some 800,000 b/d is a distant target.

The cost of rebuilding domestic capacity, both upstream and downstream, means that the expansion of overseas downstream interests will be put on hold for some time, KPC officials said.

There is talk that KPC may part with some of its overseas upstream assets controlled by Kuwait Foreign Petroleum Exploration Company to help pay for reconstruction.

Inside Kuwait, there is still some way to go before the reservoir engineers can assess how much the Iraqi destruction has impaired the future oil recovery rates from the fields.

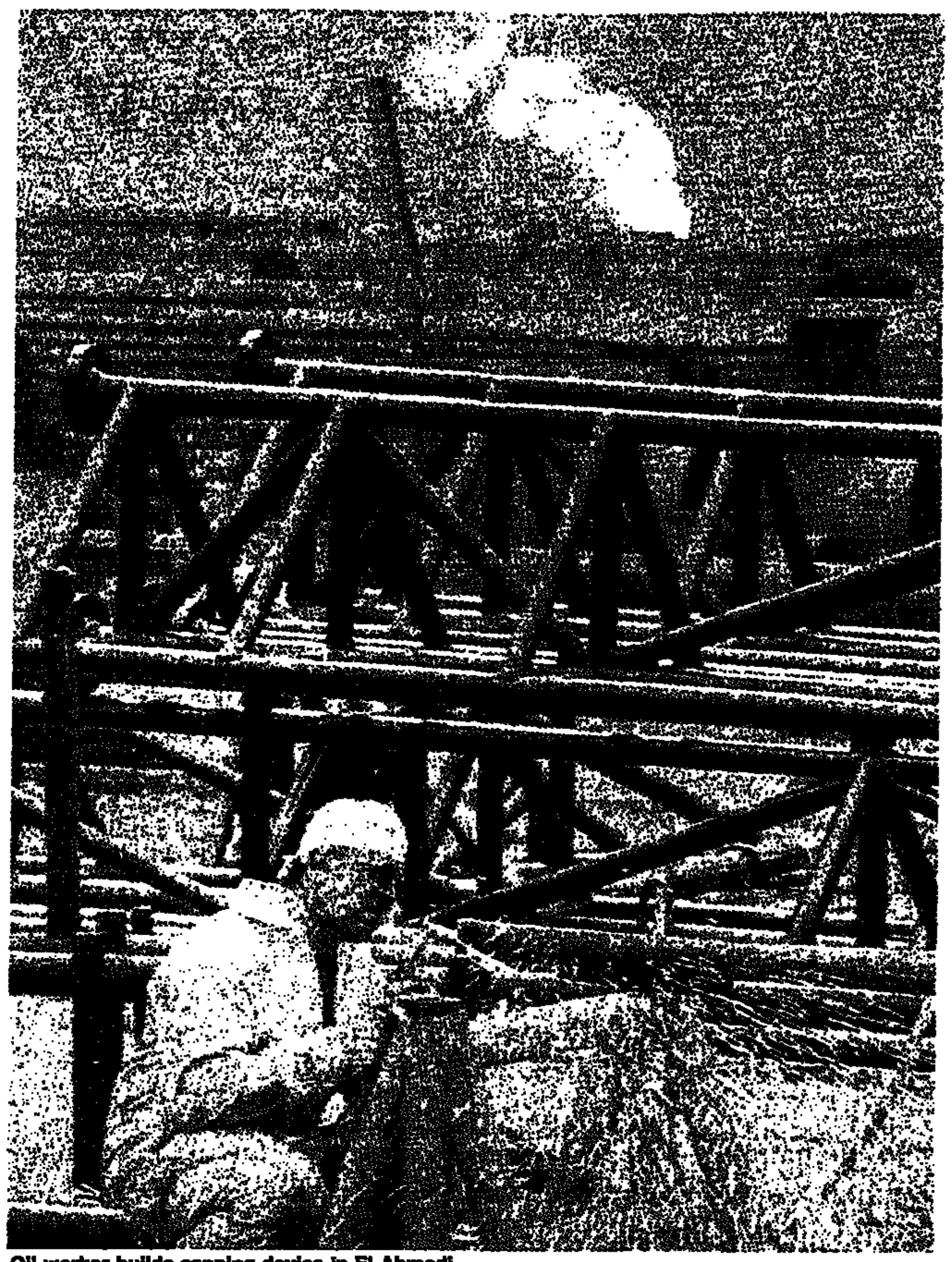
Oil was spilling and burning at a rate of between 3m and 6m b/d and the unregulated flow may undermine the natural pressure balance between oil, gas and water in the reservoirs.

The earliest, and so far sole, indications of the state of the reservoirs came from a study in May of the first 93 wells capped. This, according to Mr al-Roqba, showed normal pressure and temperature in 60 per cent of wells, which he said could be re-used almost immediately. A further 35 per cent of the wells required further study before deciding about redrilling. Only 5 per cent of the wells would have to remain permanently capped.

The study was preliminary and damage may prove worse in the northern wells which will have been burning for more than four months before capping even begins.

"It all depends on how things are down there," said one KPC official ruefully pointing at the ground when asked about the future production prospects.

David Holywell



Oil worker builds capping device in El-Ahmadi

■THE REFINERIES: chance to reconsider market strategies

A disaster and a challenge

IRAQI troops plundering Kuwait did not allow the country's refineries and petrochemical plants to escape their attentions. Before August 2, Kuwait's refineries turned over $20m a day. Eleven months later, they were at a standstill.

The country's four refineries, three of them owned by the Kuwait National Petroleum Company, a subsidiary of the Kuwait Petroleum Company, have suffered various degrees of sabotage. The refineries are:

● Mina al-Ahmadi, Kuwait's largest and most modern plant, with a pre-war capacity of 390,000 barrels a day. The three sections of the refinery emerged from the occupation almost undamaged and limited production of about 170,000 b/d should be possible by August. The control room for the crude distillator unit, an essential component for any refinery, was slightly damaged. But in spite of Iraqi efforts to use explosives to blow the control room for the reformers, used to make lead-free and high-octane petrol, the equipment remains functional. About 10 of the 140 storage tanks were damaged, mostly by bullet holes, and all can be repaired.

The main constraint on restarting exports will be the 200,000 b/d sea-terminal. The two main pipeline junctions, where the oil is pumped along to the piers, suffered bombing damage during the occupation and could take a year to replace, although a UN report says they could be by-passed by temporary pipelines. About 30 metres of the south pier has been demolished. The north pier, capable of handling four tankers, is usable however. The main sea island loading terminal has been almost completely destroyed by allied bombing.

● Mina Abdullah, the country's second largest refinery, with a capacity of 235,000 b/d, was much worse affected than Mina al-Ahmadi. The central control room, which forms the nerve centre of the installation, was sabotaged by the Iraqis, together with the $150m computerised control system. The hardware and the software, including the back-up copies, were lost.

Production is also constrained by the successful sabotage of the pumping system used to send refined products to the sea-island for export. Sections of the pipeline between the refineries themselves and to the sea-island have been damaged.

Millions of dollars of spare parts were taken

Mina Abdullah's coker unit, which had a production capacity of 2,200 tonnes a day, has lost two-thirds of its conveyor belt system.

● Mina Shuaiba, the smallest and least modernised of the three KNPC refineries with a capacity of 195,000 b/d. The tower of the plant's only crude distillator has been damaged and about 70 metres of overhead pipelines have been demolished. Five of the 84 storage tanks will have to completely rebuilt, and 19 others require repairs. A number were reportedly used by the Iraqis for target practice.

● A fourth refinery at al-Zour, owned by Saudi Arabia and operated by a Texaco subsidiary, was entirely destroyed. It had a capacity of 72,000 b/d.

Only Mina al-Ahmadi was properly maintained during the occupation. The Mina Abdullah and Mina Shuaiba plants were shut down in a few hours, without the normal close-down procedures, which normally take about a week.

A UN report warns that this may have caused significant damage to equipment, catalysts, pipes, brickwork, pumps and vessels. A full assessment will not be possible until crude oil becomes available to start production.

Production at Mina al-Ahmadi should start soon. In spite of the damage, Mr Hamoud al-Roqba, the oil minister, said last month: "By September or early October we will be able to produce and refine enough for our domestic uses."

He estimated domestic requirements at about 130,000 b/d. This can easily be met by the Mina al-Ahmadi refinery. Exports of refined products are likely to be held up until the off-loading facilities at the three refineries are repaired.

Western diplomats in Kuwait say the repair work for the refinery will be awarded later this summer. Bechtel, the San Francisco-based construction group, has drafted a refinery reconstruction plan. The company set up a procurement office in the United Arab Emirates as early as April to act as a supply centre for the refineries' reconstruction.

However, damage to Mina Abdullah and Shuaiba could be so extensive that KNPC may decide not to repair them. Mr al-Roqba said last month he was considering constructing new refineries instead.

KPC's long-term strategy remains unclear. Before the invasion it was planning a $2bn petrochemical complex at Shuaiba to manufacture high and low density polyethylene, styrenes and polystyrenes, as well as ethylene glycol and aromatics which are used as raw materials for plastic products. The company had also asked a number of international groups to bid for a contract to upgrade Mina al-Ahmadi's oldest refinery and gas plant.

The organisation will now have to decide whether to upgrade existing units, go ahead with expansion plans or reduce its capacity in Kuwait, investing instead in Europe and Asia Pacific. KPC has plants in Naples, Rotterdam and Denmark.

The Petrochemical Industries Company, the petrochemical subsidiary of KPC, plans to use the break in activities to reassess its place in the market. "The war has given us a chance to look at the market and start again," says Mr Adnan al-Meer, deputy managing director of PIC.

"The market for our fertilisers, in particular, had been pretty flat for a number of years. We may take the opportunity to diversify."

Before the occupation, PIC ran two factories, both at Mina Shuaiba. One was a fertiliser works manufacturing ammonia, urea and sulphuric acid, while the other, a $105m plant, produced salt and chlorine for Kuwait's water desalination and power generating operations.

Salt and chlorine production continued during the occupation and damage to the plants was minimal, according to Mr al-Meer. However, millions of dollars of spare parts were taken. So too were the ammonia recovery unit, worth about $2.3m, and the new hydrogen recovery unit, valued at $2.3m, both vital components for the fertiliser plant. These were disconnected and taken to Iraq.

"We were luckier than many other sectors," says Mr al-Meer. "Most of our plant dates from the 1960s and 1970s, so the Iraqis weren't particularly interested in looting it. The demolition charges at the various sites were never set off."

The main constraint on production is lack of gas, says Mr al-Meer. KOC has promised to reconnect the supply by the spring of 1992. The company is also short of labour. By June, it had only 700 of its pre-war 1,650 employees. The company employed about 200 Palestinians and Jordanians before the conflict.

"The war has been disastrous for the country," says Mr al-Meer. "But it also presents us with a challenge."

Paul Abrahams

■INSURANCE: brokers ponder disappointing hors-d'oeuvre at the golden feast

Estimates reassessed

JUST as the Gulf war produced no serious problems for the international insurance industry, so its aftermath is proving to be less of a golden bonanza than the market had initially hoped.

"There just isn't much going on," laments a director of one London-based broker. "Some insurers thought it was going to be a golden feast. It certainly isn't at the moment."

With at least 700 of Kuwait's oil wells sabotaged and the country's electricity, sewage and communications systems damaged, early estimates of rebuilding costs ran up to $100bn and insurers were euphoric about the prospects of a rise in demand for construction risks insurance.

However, greater realism has crept in. Mr Robert Nandi, chief executive of Alexander Howden reinsurance Brokers, estimates that overall damage may be only $20bn.

"We have found relatively little damage to buildings." The bulk of that damage will affect government buildings, says Mr Naudi.

"I just don't see the amount of spend that was initially envisaged." Mr Naudi believes the government will be the biggest insurance buyer.

At the same time reconstruction is proceeding less urgently than was originally expected. "It has taken a lot longer than people first thought. There are other practical difficulties," says Mr Naudi.

In addition, he says, there are question marks about the extent to which Kuwait City will be rebuilt to the size that it was in August 1990.

Economic activity in Kuwait has so far been dominated by the cleaning and clearing up the debris of war, with intense efforts being devoted to capping sabotaged oil wells.

Eventually, when Kuwait begins to rebuild its oil industry there should be an increase in marine cargo insurance – to cover the increasing volume of trade into Kuwait – and policies to cover construction companies when the large task of restoring oil output gathers pace.

So far not many contracts have been signed and sealed and the special task forces established by the big international brokers to monitor the situation have had relatively little to do.

Insurance brokers, who act on behalf of insurance buyers, are re-establishing their links with local direct insurers, who seem certain eventually to retake centre stage in the local industry after recovering from war-related disruption.

Traditionally four Kuwaiti companies – al-Ahleia, Gulf Insurance, Kuwait Insurance and Warba – have enjoyed a monopoly of the local insurance market, with the government insisting that Kuwaiti-domiciled assets are covered by Kuwaiti insurers.

The government owns a stake in all four and also controls the local reinsurer, Kuwait Re. A fifth insurer, the Bahrain-based, Bahrain Kuwait, is licensed to do business in Kuwait.

Each of the companies reinsure bigger risks abroad – such as the Kuwait aircraft and shipping fleets.

They make extensive use of contacts with international insurance and reinsurance brokers such as Willis Corroon, Sedgwick, Minet, Alexander & Alexander and Marsh McLellan for whom Kuwait has traditionally represented a source of modest but stable and predictable profits.

Willis Corroon, the London-based broker formed by the merger between Willis Faber and the US broker Corroon & Black, has especially long-standing connections with al-Ahleia, for example, and, along with a smaller London-based broker, Robert Fleming, also act on behalf of Kuwait Re.

Sedgwick Group, meanwhile, has an agreement to place the reinsurance covers of Gulf Insurance. Alexander Howden, the reinsurance arm of A&A, has links with al-Ahleia and Gulf, while Minet has had a close relationship with Kuwait Insurance for 30 years.

Following the Gulf war during which the local companies failed to operate for eight months, these arrangements are effectively in place again. There are question marks in some quarters about whether the Kuwaiti authorities will continue to allow the four companies to retain a monopoly of direct business.

Until the companies began functioning again in April the government had allowed some local business to buy insurance directly from abroad.

The local companies, which normally buy their reinsurance at the end of each year, did not have the reinsurances in place until the end of April this year. Even now though some of the companies, especially those depending on Palestinian labour, have found operational efficiency impaired.

The biggest contract, insuring the clean-up effort by Kuwait Petroleum Corporation, was agreed by Minet without the participation of any local insurer.

Nevertheless the general consensus among insurance brokers is that the Kuwaitis will eventually restore the monopoly of the direct insurers. "I see no let-up in this respect," says Mr Naudi.

Irrespective of who wins the battle for broking business much of it seems destined to flow into London.

The London market's prestige in Kuwait was enhanced by promptness with which Willis Corroon was able to settle a claim from Kuwait Airways for a fleet of airliners that were seized by the invading Iraqi army while they were on the tarmac at Kuwait airport.

The claim, which was for about $300m was settled rapidly by Lloyd's underwriters who had insured the airliners.

Richard Lapper

A local branch damaged during the occupation

Iraqis deposit more trouble in the system

Victor Mallet looks at how the banks are coping

THE banking system was in a mess before the Iraqi invasion, and the war has made matters worse.

Following the crash of the Souk al-Manakh unofficial stock market in 1982, National Bank of Kuwait (NBK) was the only one of six commercial banks to operate profitably without government support on August 1, 1990.

Iraq's wholesale theft and destruction of Kuwaiti businesses has forced the central bank to freeze repayment of more than KD2bn of outstanding bank loans to private sector companies, adding to the problems still posed by the hard core KD2bn of debt owed by Souk al-Manakh speculators.

One banker estimates that the share of loan portfolios coming under the government's protective umbrella will rise to 80 per cent from 50 per cent.

Merging two or more institutions of negative worth does not automatically resolve their problems

The physical infrastructure of Kuwaiti commercial banks survived the war in relatively good shape, although the central bank was relieved of its gold reserves by the Iraqis. Kuwait has introduced new Kuwaiti dinar banknotes of the same value as the old, and the banks, having restored basic operations, are now struggling to improve their services in the face of staff shortages and telecommunications problems. NBK has been carrying out international transactions by fax via its London office.

The task of the banks has not been made easier by the hesitant financial policies of the government and the central bank. Sheikh Jaber al-Sabah, the emir, announced in April – without consulting the banks – that consumer loans and housing debts for Kuwaitis would be forgiven by the state. There are thought to be some 180,000 beneficiaries of this largesse, covering about KD1.1bn of state housing finance and KD350m of consumer lending. But there is no obvious logic in the sweeping nature of the move, since some Kuwaitis have only recently bought houses with KD50,000 loans, while other, less fortunate householders have just finished paying off their debt over a period of years.

Furthermore, Kuwaitis are generally being paid for the seven months of the Iraqi occupation, but foreign workers are not.

Some, including Palestinians, have been sacked; yet these same foreigners are being forced to make loan repayments.

Kuwaiti businessmen, meanwhile, are in a state of semi-paralysis while they wait to see whether the government will write off commercial debts as well or provide some other solution, such as a 10-year interest-free repayment period. Banks have been instructed to suspend the loans but to continue accruing interest.

They are also making new loans for immediate business needs, although initially they are restricting credit to a quarter or a half of previous levels for most of their customers. Merchants complain about a shortage of credit and sometimes mutter darkly about discrimination against the government's political opponents. With no up-to-date balance sheets to examine and little time for detailed analyses of creditworthiness, bankers are relying on their instincts. They are applying pre-invasion interest rates of about 9.5 per cent, based on the old discount rate.

One headache has been the enormous demand for foreign exchange, much of it in cash dollars, since the liberation of Kuwait in February. Palestinians who have lived in the country for years and kept their wealth in Kuwait are being forbidden to re-enter or forced to leave because the Kuwaitis see them as sympathetic to Iraq. Kuwaitis themselves have little confidence in the economy and fear that the government will devalue the dinar, although the authorities insist that they will not do so for fear of lifting inflation and undermining confidence still further.

In recent weeks banks have brought in tens of millions of cash dollars by air to meet demand. They waited in trepidation for a rush of withdrawals and capital transfers on June 26, when official exchange control restrictions, limiting withdrawals to KD4,000 a month per account, were due to be lifted.

It came as no surprise, therefore, when Sheikh Salem Abdul-Aziz al-Sabah, the governor of the central bank, announced on that day that the lifting of restrictions would be delayed until August 3, while the limit would rise to KD6,000 from July 1.

Imports have not been affected by the controls, and the banks have been able to provide letters of credit. Nor have Kuwaiti individuals suffered any hardship, since exemptions are made for medical or educational expenses and foreign loan repayments.

"The business world hasn't really been too restricted by this limit of KD4,000," says one banker. "The one area we're having difficulty with at the moment is providing importers with forward cover. There's no KD market so there's no KD interest rate structure."

That should have been solved on July 3, when the backlog of interbank transactions was due to be cleared. Here again, the central bank has dithered, bankers say, shifting the target date from May 24 to May 31 to June 18 to June 6 to July 4, and then – on being told of the US holiday on that day – back to July 3.

Kuwait's bank sector has contracted in the aftermath of the Iraqi invasion and will contract further. "Balance sheets will have shrunk by about 20 per cent since August," says Mr Christopher Keen, general manager of the United Bank of Kuwait, the London consortium bank, at a conference in May organised by the Middle East Economic Digest.

The physical infrastructure of the commercial banks survived the war in relatively good shape

For years the central bank has talked of the need for mergers to reduce the number of banks and other financial institutions, and the chaos caused by the Iraqi occupation may provide an ideal opportunity. Bankers believe that the process will begin in early 1992 after banks have prepared consolidated accounts for 1990 and 1991, but they point out that merging two or more institutions of negative worth does not automatically resolve their underlying problems.

The banking system is in a parlous financial state which will not be helped by the government's plan to reduce the number of foreigners, halving the total population to perhaps 1.2m people.

NBK is aiming to have 23 of its 52 branches open soon. In late June it had only 700 of its pre-war staff of 1,700. More than a fifth of them, including Mr Ibrahim Dabdoub, the respected chief general manager who has been biding his time in London, were Palestinian.

Banks as a whole could end up with only half of the 180 branches they had before, particularly if residents congregate close to the capital and begin to abandon outlying suburbs.

■COMMERCE: some traders are picking up the pieces while others are in disarray

Merchants happy to bide their time

ON the face of it, Kuwait ought to be on the verge of the biggest one-off commercial bonanza in its history. Not only is Kuwait a nation of traders but, as one leading merchant put it: "Kuwait needs every kind of widget under the sun – or rather, under the smog."

However, while several Kuwaiti merchants have begun the task of resupplying the emirate with the cars, televisions, furniture, air conditioners, machines, spares and countless other items looted or smashed by the Iraqis, the businesses of many more still lie idle.

Some merchants are just biding their time – hoping that the government will make good their losses during the occupation with enough cash to ease them painlessly back into business. Others are waiting cautiously to see just how big the post-liberation market will be. A great many others are simply in disarray.

Although the physical damage to Kuwait's commercial infrastructure is extensive and evident in Kuwait City's innumerable smashed and robbed shops and warehouses, the human and financial damage inflicted by the war is graver. "If you take the central bank at one end of the spectrum and the consumer at the other,"

The reluctance of some merchants to reinvest immediately has opened up sectors of the market

says Mr Bassam al-Ghanim, president of al-Ghanim Industries, "every single financial relationship in between the two has been severed in this town."

One of the most severe short-term fractures is to the country's system of agencies, upon which exports to this most import-dependent of countries depends.

Under Kuwait law exporters to the country can enter the market only through a Kuwaiti agent, who then becomes the monopoly importer for the foreign company's goods or services.

Iranian boatmen resumed delivery of melons to the port in Kuwait City on June 25, the day that martial law ended

Although agencies must be in the name of a Kuwaiti, in practice many of the hundreds of such businesses in the emirate have been staffed and managed almost entirely by expatriate workers, particularly Palestinians.

The departure of thousands of Palestinians during the occupation has left scores of agencies effectively defunct and their foreign principals in limbo. "Few agencies are yet back in business," says one British businessman. "Many of us are operating in a complete vacuum."

Foreign companies which have suddenly found their agencies inoperative are finding it difficult to find a new entrée into the Kuwaiti market both because terminating their existing agency agreement risks incurring large damages claims from the original Kuwaiti sponsor and, for the time being at least, because there are few alternative agencies up and running.

It is the biggest and best established of Kuwait's merchants who have recovered the fastest from the problems of Kuwait's dislocation. Mr al-Ghanim himself, for example holds the Kuwait agency for General Motors, among many other leading international companies, and has managed swiftly to arrange finance, supplies and shipping to ensure that more than 10,000 vehicles are on their way to his showrooms.

In general, those leading merchants who have cash they are willing to commit, or who are able to secure credit from their exporting partners, are finding no serious impediment in starting the big resupply. Kuwait's banks are slowly getting back up to speed in issuing letters of credit, foreign exchange is available – even if forward cover is not for the time being – and full export cover is being offered by bodies such as the US Eximbank.

However, the big merchants are, for the time being, a case apart. For smaller traders the dislocation is much more serious.

The most fundamental problem for the small trading houses is the limited scale of Kuwait's domestic demand. The absence of hundreds of thousands of expatriate workers has deprived many small businesses of their *raison d'etre*.

The Indian manager of one video rental shop, for example, was found last month disconsolately seeking work in one of Kuwait's big hotels.

"My stock has gone, my customers have gone – it'll take me years to get back in business," he says. Damaged and empty arcades and shops across Kuwait suggest similar stories. Moreover, those migrant workers who remained have little money to spend.

The remains of burnt-out dows along Kuwait City waterfront

While the Kuwait government gave each of the Kuwaitis who endured the occupation KD500 for their pains, expatriates received nothing and have been sparing what money they have left for food and other essential items. Many Palestinians are holding on to their savings in readiness to leave the country.

The resulting contrast in fortunes is most clearly visible in the Salmiya suburb of Kuwait City, one of few commercial areas to revive to any great extent after liberation.

The predominantly Indian, Palestinian, Syrian and Lebanese shopkeepers who have any stocks left to sell have opened their shops or, where these have been ruined, their car boots to browsing Kuwaitis who have lost less of their money and none of their shopping acumen.

"The clothes here are OK," remarks one Kuwaiti father buying dresses for his daughters last month. "But they are all last year's fashions."

Furthermore, expatriates who have managed to reopen shops are having difficulties restocking, even when they have the money.

One Syrian manager of a chain of electronics shops complained that since he could not leave the country and be sure of being allowed back in, he had been forced to rely on Kuwaitis to buy stock for him in Dubai, who in turn take their cut. "They are ripping me off," he says simply.

Many businessmen who claim not to have enough cash to restock, both expatriate and Kuwaiti, are bitter that while the government decided to write off outstanding consumer loans soon after liberation, there has been no similar write-off of traders' debts.

However justified traders' claims for debt forgiveness and compensation for their losses may be, sceptics detect in such cries for government assistance a time-honoured inclination to seek state support in preference to risking their own money.

While the Government cannot necessarily be expected to bale out every Kuwaiti and expatriate trader on demand, diplomats and foreign businessmen are growing increasingly concerned that it has not yet spelled out its basic financial and banking policies since liberation.

Until the central bank reformulates lending regulations and a sustainable interest rate structure, merchants are relying ad hoc on the banks for finance.

Since liberation, lending has been limited to merchants with a good name who have usually been restricted to between a quarter and a half of their pre-invasion credit limits. But by no means all merchants have had equal luck in persuading the banks to lend.

However, the confused state of Kuwait's commercial system is presenting entrepreneurs with some tempting opportunities.

Mr al-Ghanim, for example, says that the reluctance of some merchants to reinvest immediately in Kuwait has opened up sectors of the market he has been eyeing for years – though he is reluctant to let his rivals know which.

"It is not every day you can start with a clean sheet with your business," he says, displaying more optimism than is the presently the rule among Kuwait's beleaguered businessmen.

The realignment of Kuwait's relations with its big northern Gulf neighbours offers bright promise in the view of some merchants.

Mr Hussein Marafie, owner of the SAS hotel and a series of agencies with leading Swedish companies, has just formed a joint venture import-export company in Iran – this is apparently the first since the outbreak of the Iran-Iraq war in 1980 during which Kuwait backed Iraq.

"If you know the right people in Iran, you can get hold of anything," says Mr Marafie, who intends importing pistachio nuts, fruits and vegetables from across the Gulf.

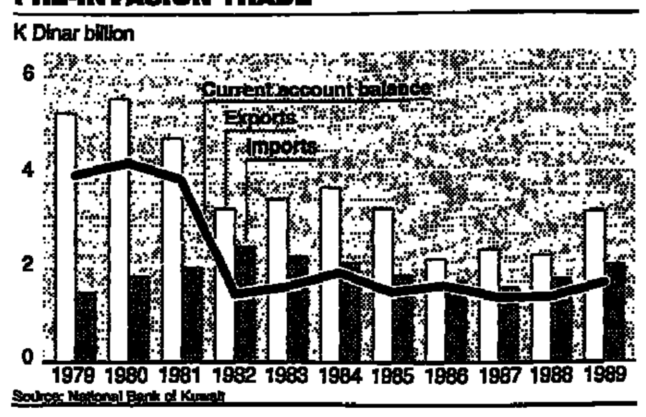
It is the biggest and best established of Kuwait's merchants who have recovered the fastest

Iranian fishermen have seized opportunities in the aftermath of the war. They can be seen each morning selling fish and tomatoes on the Kuwaiti shore.

In Kuwait, which began its existence as a trading hub and pearl-fishing centre, the merchant tradition is deeply ingrained and will not be easily suppressed.

Mark Nicholson

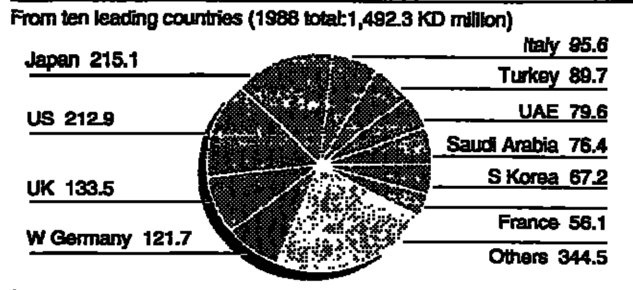
PRE-INVASION TRADE



Source: National Bank of Kuwait

PRE-INVASION IMPORTS

From ten leading countries (1988 total:1,492.3 KD million)



Source: Central Bank of Kuwait — Figures in KD million

■TELECOMMUNICATIONS: a battle is being fought between US and European groups over equipment contracts worth up to $400m

Companies raise their political antennae

BATTLES between US and European telecommunications manufacturers to resupply Kuwait with up to $400m worth of equipment have become increasingly bitter since liberation.

Rivals include AT&T, the US telecommunications maker, GPT of the UK, Alcatel of France and the Swedish manufacturer Ericsson. Pre-contract skirmishes have been intense, as some groups denigrate their competitors' equipment.

The struggle is especially acute because Kuwait is in the unusual position of needing to acquire large quantities of sophisticated equipment while having the financial means to do so.

Most of the companies agree that politics, rather than technical or financial merit, is likely to play a predominant role in the allotment of reconstruction contracts. The main loser of the telecommunications war appears to be Ericsson from neutral Sweden. Before the war, it had more than 90 per cent of the market.

The principal winner appears to be AT&T, which has been particularly aggressive in entering the post-war Kuwaiti arena. Before the conflict, it enjoyed only about 5 per cent of the market, having been handicapped until recently by a ban on its products in much of the Gulf because of a boycott of companies with Israeli links.

The potential market is considerable. Kuwait's telecommunications system, the second most important in the Gulf after Saudi Arabia according to Ericsson, has been devastated by allied bombing and Iraqi sabotage. Mr Habib Hayat, the minister of communications, has said it may take $400m to replace the telecommunications equipment lost, not counting the cost of rebuilding destroyed premises.

As part of a $70m emergency programme, about 85 per cent of the exchanges not totally wrecked have been connected, according to Mr Hayat. However, one equipment supplier says the destruction of the infrastructure is such that less than 50 per cent of Kuwait's 600,000 subscribers actually had access to the system last month.

Temporary repairs to the international system, and the provision of a new exchange by AT&T, helped international call volumes to rise from 250,000 in April to about 800,000 in March. Pre-war levels were about 1.5m calls a month. AT&T, MCI of the US and BT, formerly British Telecom, are providing international services from the country.

The most extensive damage has been at the Technical Engineering Centre, known as the Tec building, which is in the middle of Kuwait City. Iraqi looting accounted for one 30,000-line Ericsson local digital exchange, while an allied smart bomb hit the 8th floor and destroyed the older of two international exchanges located there.

Heat and dust since the bombing has affected the performance of the remaining international exchange at the Tec building. One of the building's walls fell away when the bomb hit, exposing the system to the outside environment.

Engineers say that without effective air conditioning temperatures have reached as high as 50°C in the exchange, possibly permanently damaging printed circuit boards. The normal operating temperature is about 19°C. Lack of maintenance during the occupation has not helped any of the systems, either.

The international exchange still operating may well be impossible to sustain in the long term. Only about 45 per cent of international calls through the system are completed.

Meanwhile, the destroyed international exchange will have to be replaced at a cost of more than $100m, says Mr Hayat. AT&T is most likely to pick up the contract. The company has already set up a temporary system that can be installed on a permanent basis.

The US company is also tendering to replace a Siemens multiple antenna earth station in the north of the country, part of which was removed and the rest destroyed by the Iraqis.

In the meantime, AT&T has secured an agreement worth $7m to $8m to lease 600 international lines, says Mr Hayat. The company will also supply a local exchange of about 5,000 lines.

AT&T's success so far in Kuwait did not occur by accident, explains Mr William Beckett, its Middle East managing director. The company negotiated a contract before the liberation to examine the telecommunications system and to provide international services as quickly as possible.

Mr Hayat says: "AT&T did a really excellent job. It had international lines available only 37 hours after liberation. Over a period of six weeks it provided us with 600,000 calls, worth $14m, free of charge."

'AT&T had international lines available only 37 hours after liberation. Over a period of six weeks it provided us with 600,000 calls, worth $14m, free of charge'

Mr Beckett at AT&T says when his salesmen arrived they were told not to sell, but to do everything they could to help.

Other damage to the telecommunications system includes the complete destruction of about seven of the country's 26 exchanges. Four more have suffered as much as 60 per cent damage, according to Mr Hayat.

The south of the country has suffered most, says Mr Mats Hanson, an implementation and sales engineer for Ericsson in Kuwait.

One of Kuwait's four transit tandem exchanges at South Sabahiya was completely flattened by allied bombing. GPT of the UK, which sells System X, is strongly tipped to win the replacement contract which could be worth $8m to $10m for the equipment alone.

The South Sabahiya transit station is crucial for connecting the south with the rest of the country. At the moment most areas in the south are cut off. Alcatel, the French company, is expected to win a contract to supply temporary microwave systems linking those exchanges cut off. It should also win an order to install cabling.

GPT and Alcatel are also competing to supply a new exchange at Umm al-Haiman, where the equipment was removed and the building set ablaze. The exchanges and buildings at Failaka, Abdaly and Wafra will also need to be replaced. Most have a capacity of about 5,000 lines. A large quantity of transmission equipment has also been destroyed.

Devastation has also been wreaked on Kuwait's mobile communications systems. The whole of NEC's network, capable of handling between 15,000 and 20,000 subscribers, has been dismantled.

Ericsson, which was in the process of installing a SKr290m mobile system with a potential capacity of 20,000 subscribers, had its main warehouse looted. The Iraqis took all of the company's radio equipment, base stations and generators, as well as the mobile exchange. In addition, all Ericsson's spare parts for its trunk exchanges were looted.

Mr Hayat says that, in spite of the setback, the Ericsson mobile system should be up and running by December.

Ericsson is understood to have secured an agreement to maintain its own systems in the country. This was in doubt for a while.

One of the most pressing problems for the ministry of communications is whether it will be able to sustain its system.

In the short term, the ministry is desperately understaffed. In May, only about 20 per cent of its posts were filled, according to one equipment supplier.

All of the ministry's testing equipment was also taken, so as the system degrades, it becomes difficult to identify the problems, says the supplier.

"They've restored as much as they could, as quickly as they could. Without labour, spare parts and testing equipment, it's amazing the system is working as well as it is. How long it will last is another matter," he says.

The ministry also faces long-term problems in sustaining the system. Before the war, it had considerable difficulties maintaining its telecommunications equipment because of a shortage of engineers.

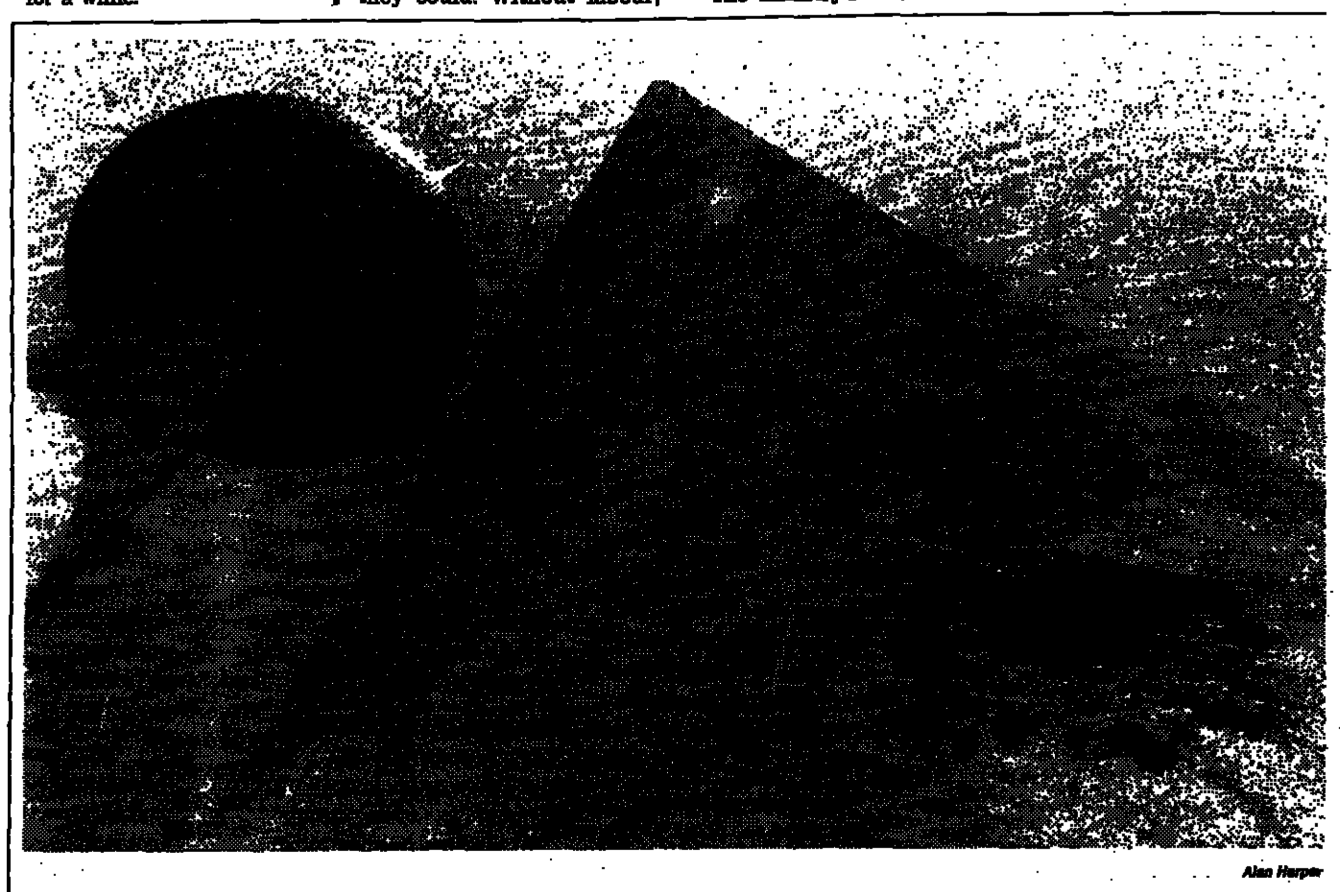
Without Palestinians, who formed a sizeable minority of the ministry's engineering and managerial staff, the situation is likely to be even more difficult.

The ministry's task will be made harder by having to cope with damaged exchanges and the problem of dealing with three or four equipment suppliers. This requires different spare parts and staff to be trained in the various systems.

In the longer term, the ministry will also have to decide whether to update some of its Ericsson exchanges which are still analogue. About 140,000 lines in pre-war Kuwait were not digital. AT&T is keen to tender for such contracts.

Two to three years may be necessary to replace the destroyed equipment. In the meantime, Kuwaitis and foreign businesses alike will, with an irritating regularity, suffer poor and dropped lines as well as frequent failed connections.

Paul Abrahams



Alan Harper

Kuwait's water towers, the nation's landmark, received superficial damage

■COMPUTERS: institutions mourn the loss of their screens

Televisions that trekked to Baghdad

COMPUTERS leave your average Iraqi soldier cold. Faced with hundreds of screens at a leading car dealership, President Saddam's troops failed to understand how the company stayed in business if its employees watched television all the time.

"They stared at the screens, waiting for the television programmes to begin," says Mr Bassam Alghanim, president of Alghanim Industries. "What they really wanted to know was what this programme called Lotus 123 was about and why it never started."

Although they may not always have known what they were for, the Iraqis have stripped Kuwait of most of its computers. The scale of losses is almost impossible to gauge, says Mr Robert Niedermayr, general manager of Gulf Business Machines (GBM), which distributes IBM products in the Gulf. He says many businesses have yet to return and assess the losses.

As for large systems, GBM and its subsidiary Khorafi Business Machines, which claims to be the largest supplier of computers to Kuwait, estimate that about 80 per cent of the Kuwaiti government's computers have been pillaged. A few have been destroyed by fire, but most have simply been shipped to Baghdad. Before the war there were about 50 mainframe and mini computers in the country, most of which were in the public sector.

The looted mainframes are likely to do the Iraqis little good, says Mr Niedermayr. IBM has refused to offer technical support for the machines which have probably been permanently damaged during the journey to Iraq.

Educational institutions were particularly badly hit, says the company. Schools were stripped of their PCs, while the university was completely gutted of all its equipment. Kuwait Airways has been devastated by the loss of its mainframes. The national carrier lost both its computer reservation system, called Resqu, as well as a new $15m machine that controlled its finances.

Less damage was inflicted to the banking system's mainframes, which remained virtually untouched according to IBM. However, several automatic teller machines were destroyed by Iraqi troops, once they discovered the machines contained money.

In spite of the lack of damage to the banks' computers, western diplomats believe there could be a large information technology market in the banking sector as the Kuwaitis compensate for the missing Palestinian employees by investing in increased automation. Replacement of lost government computers will have to wait until later this summer when the state budget is allocated to the ministries.

The damage to software has been less than to hardware. Most government departments managed to save their databases by hiding them or smuggling them out of the country during the occupation. Mr Niedermayr says only a couple of ministries lost data which was deliberately destroyed to prevent personal details being discovered by the Iraqis.

The interior ministry was even able to reload databases in both Bahrain and Jeddah containing civil information on the population, according to Mr Keith Davies, managing consultant of the UK-based Computer Sciences Corporation Europe.

Restarting those mainframes still in the country has not always been easy, says Mr Niedermayr. Once power has been reconnected, air-conditioning systems have had an unpleasant habit of pouring soot and ash straight into the machines. "This is by no means helpful," he admits.

The poor state of the telecommunications system also makes data transfer a highly hazardous business at the moment.

However, shortages of trained technical staff remain the country's most pressing information technology problem, says Mr Niedermayr. IBM was able to reallocate its staff from Kuwait to other countries during the occupation, and few now want to return.

Mr Niedermayr says he is planning to start recruiting this month in Europe where the employment market should make it easy to find trained personnel.

In the meantime, he is taking on a couple of dozen Kuwaiti trainees. There are already a number of east European systems analysts in the country. By one of those quirks of fate, says Mr Niedermayr, President Saddam has given a small though useful fillip to Poland's hard currency shortages.

Paul Abrahams

■ THE CAR SECTOR: dealers wage war for market share

US seizes chance to hit Japanese

ONE of the few benefits of the Iraqi invasion of Kuwait was that it temporarily solved the country's traffic problems.

President Saddam Hussein's troops laid waste to Kuwait's pre-war fleet of about 560,000 cars, leaving as few was 200,000 intact. Some were driven out to Iraq. Others were stripped and vandalised. Cars, their doors open, bonnets up and tyres missing, lay scattered, sometimes tipped on their sides, across the city. After the liberation there was a lot of scrap metal in Kuwait, and it wasn't only Iraqi armour.

By June, the wrecked cars had disappeared — from the city centre and the main streets anyway — and the traffic had returned with a vengeance. There was even a parking problem in the centre of town — an undoubted sign of progress.

Kuwaitis, who rarely walk in the heat even for 50 metres if they can drive, were busy once again indulging their love affair with the internal combustion engine. A bonanza was taking place in the car showrooms of the Shuwaikh commercial district where inquisitive customers eyed sleek, shiny cars. Behind their desks, snappy salesmen unselfconsciously counted wodges of dinars. Everything is sold cash. There is no credit.

Car dealerships are clearly enjoying a resupply spree. But a commercial war is being waged between the dealerships as they use the opportunity to seek a greater market share. Those dealing in American cars appear particularly determined to seize the chance to strike back at the Japanese who before the war had overtaken the Americans to become the main volume suppliers to Kuwait.

As part of their strategy to attack the Japanese, the Americans have been especially quick at shipping in units after the liberation, explains one dealer. New cars were in showrooms by the middle of May, well before the Japanese dealers found their feet.

By ensuring the product was available, the US dealerships have done particularly well. By the middle of June, al-Ghanim Industries, which markets GM cars, estimated it had sold 1,500 units, and had another 10,000 in the pipeline. Behbehani, which sells GM Buicks and Chrysler Jeeps as well as Japanese Isuzu cars, reckons there is no doubt the Americans will double their market share because of their efforts.

The Japanese dealers have been benefiting from the increase in business although their operations started rather slower than those of the Americans. The al-Sayer group, which retails Toyota cars, reckoned that by the end of June it had sold 1,200 vehicles, as well as pre-selling three-quarters of its shipment of 1,200 cars for July. The company plans to import between 1,600 and 1,700 vehicles a month from then on. Before the war, the group's average sales were between 900 and 1,000 units a month.

'More than 90% of my customers are Kuwaiti nationals who want to buy US cars'

The main problem in selling cars has been customer credit. The government set a KD4,000 limit on monthly withdrawals from personal bank accounts (now raised to KD6,000). However, some dealerships have managed to overcome the limit by providing potential customers with letters for the banks explaining that additional cash was required to acquire a car. This has normally been enough to secure adequate amounts to make the purchase.

The buoyant replacement market is a boon for the dealerships which were suffering from a saturated market before the invasion. During the late 1970s, there was an explosion in car sales as families increased their fleet from two cars to as many as six or seven.

"In the old days it became simple," explains Mr Abdul-Ghani Behbehani. "Initially, each family had two cars, one for the man of the house and another with a driver. Then everyone if the family wanted one. Between 1978 and 1980 we were the largest dealers of Buicks in the world." Unlike Saudi Arabia, Kuwait allows women to drive.

Sales peaked in about 1982 when as many as 60,000 new cars were sold, an enormous number for a country the size of Kuwait. Since then, sales of new cars more than halved, stabilising at between 15,000-20,000 units a year. The market became essentially a replacement one, handicapped by a shortage of credit in the economy. The market was hindered by over-supply, with dealers trading on wafer thin margins, cutting prices and trying to counter the activities of parallel importers. There is contradictory evidence from dealers about whether the market was picking up just before the war.

Although the dealerships are enjoying lively sales following Iraqi looting, the large merchant families controlling the biggest dealerships suffered significantly from the pillage.

The al-Sayer group, which markets Toyota and a wide range of non-vehicle products, estimates it lost about $450m from the invasion, excluding lost profits. Included in those losses were more than 2,200 vehicles looted by the Iraqis as well as spare parts worth about KD16m. The group's headquarters was completely destroyed by fire.

Meanwhile, the al-Mulla group, which sells Mitsubishi products, lost about 1,600 showroom and rental cars, while about 3,000 leased and trading vehicles were stolen or destroyed. The company estimates the losses for cars alone at between $25m-$30m. Its servicing garage, which it claims was the world's largest, was destroyed, as was the spare parts facility and the group's headquarters.

The Behbehani group lost 750 new vehicles worth about $15m; the main showroom was set ablaze and destroyed; the best spare parts, worth about $2.5m, were taken. And al-Ghanim Industries lost 7,000 cars, comprising a mixture of new, used and leased vehicles. The company refuses to provide an estimate of the value its losses.

Such destruction has affected the financial position of a number of smaller dealerships which are finding it difficult to generate working capital to meet demand.

Dealerships selling US cars have found credit easier to obtain than their counterparts. Most Japanese companies are insisting on letters of credit before they ship vehicles and are no longer working on the pre-war current account basis. Letters of credit can be difficult to obtain given the state of the banking system. This has seriously affected the cash flow of the groups selling Japanese vehicles, says one dealer selling Japanese cars.

American principals have taken a very different attitude, explains Mr Behbehani. "The Americans have been very helpful with credit facilities. Both GM and Chrysler provided open credit facilities for us. But the Japanese have been far more reluctant to provide that sort of help. As a consequence, operations with our Japanese principals are on nothing like the same scale as with the Americans."

The Americans have been especially quick at shipping in units after the liberation

The European dealerships appear to have been left behind in the rush. Mercedes had the largest European presence in Kuwait before the war. But its dealer, Abdul-Rahman al-Bisher & Zaid al-Kazemi, took a shipment of only 60 cars in June and was only expecting deliveries of spares in mid-July. The company refused to explain why it had been so slow in resupplying the market.

Meanwhile, all of the dealerships are suffering from shortages of personnel. Nearly all the groups employed only small numbers of Kuwaitis. Many expatriates fled during the invasion or its immediate aftermath. Some are proving reluctant to come back while others are finding it bureaucratically difficult to return. Al-Ghanim Industries estimates it is taking about 45 days to recruit labour, find them exit and entry visas, and place them on a flight to Kuwait.

The Behbehani vehicle division only employed six Kuwaitis at its dealership out of a pre-war staff of about 250. The company was operating with about 50 people in the middle of June. Similarly, the al-Mulla car division, which employed about 800 people before the war, is operating with only 100.

However, such shortages create opportunities, according to Mr Dennis Stickley, a director and chief executive of al-Sayer's automotive division. He is using the opportunity to cut down the number of employees. Before the war, the al-Sayer group employed more than 2,000 people before the war. It plans to employ only 500 by the end of the year.

"We can shed our staff by 75 per cent by being more efficient than before," explains Mr Stickley. "This is an occasion to learn from our previous mistakes. Many Arab companies need to do with that opportunity."

The main difficulty facing the dealers is to know how long the replacement market will last. If the government succeeds in its objective of cutting the population, the market for cars will undoubtedly be affected.

However, Mr al-Ghanim believes the reduction in population will affect the various dealerships in different ways. "It's the Japanese car manufacturers that will get it in the ear. More than 90 per cent of my company's customers are Kuwaiti nationals who want to buy American cars. It was the expatriates who bought smaller cheaper and predominantly Japanese cars before the war. They are the ones who have not come back or will not return."

The dealers will have to do without the Iraqi market for the foreseeable future. After the end of the Iran-Iraq war in 1988, dealings with the Iraqis had become significant, claims one dealer.

The al-Sayer group reckons the good sales should last until the end of the year. After that, market growth will depend on the economy. And growth of the economy will be dependent upon the government's policies.

"If the government takes a more open policy to trade, this country could become one of the most busy commercial centres in the middle east," says Mr Stickley. "It all depends on the government's attitude."

Paul Abrahams

■ HOTELS: reparations claim may reach $250m

Ungracious guests that left a costly calling card

THE hotels, appropriately enough, enjoyed reasonable occupancy rates during the occupation. Iraqi soldiers, officials, intelligence agents and various pillagers and sackers all enjoyed the comforts of the city's five-star hotels during their seven-month stay. Some even paid their bills — albeit in worthless Iraqi dinars.

Sadly, though, the departing Iraqis were less than gracious guests and in the few days before checking out they shelled, dynamited, torched and looted the city's flagship hotels, making off with as many TVs and minibars as they could carry. The late assault on the hotels was as vindictive as any of the Iraqis' acts of vandalism, a systematic attempt to smash some of Kuwait's icons of opulence. As a measure of the damage they inflicted, the Kuwait Hotel Owners' Association is busy drawing up a reparations claim which, some estimate, could reach $250m.

The Regency Palace Hotel remains a sad, charred sight on the Gulf coast

Happily, the Iraqis did a pretty sloppy job on some hotels. At the International Hotel, for example, troops tried to burn down one wing by lighting the top floor, a fire handily contained by the sprinkler system. "Only an Iraqi would start at the top floor," says Mr Hermann Simon, the hotel's manager. "We are very grateful."

At the Meridien Hotel, instead of starting fires up the stairwells and liftshafts, the Iraqis arbitrarily torched the lobby and took potshots at the hotel from tanks across the street. "When it comes to trashing hotels, the Iraqis are rank amateurs," says Mr Keaton Woods, the manager.

Some hotels escaped virtually unharmed, such as the Holiday Inn, where the building's hollow cube design quite flummoxed its arsonists, who resorted in desperation to torching a few carpets in the middle of the building's marble staircase, leaving only a nasty black stain.

However, other hotels were seriously scorched. The central of three blocks at the Sheraton, Kuwait's first grand luxe hotel built in 1968, was gutted entirely. The Regency Palace and SAS hotels were also thoroughly burned, while the Ramada, a converted cruise ship, is a charred write-off. Just for good measure, the allies bombed flat the Messila Beach Hotel, which the Iraqis used as a beach fortification.

By last month, most hotel owners and managers had laid plans to make good the damage. But few looked set to take the opportunity to upgrade their hotels in the process. Kuwait's hotel market was in the doldrums before the invasion, and most owners and managers appear to believe that once the present increase in reconstruction-related business is over, perhaps in two years, things will return well to normal. "I think it's going to level off pretty quickly," says Mr Woods.

Not that the increase is all that impressive. Although Kuwait at present offers fewer than 900 five-star rooms compared with more than 2,000 before the invasion, occupation rates last month were reckoned to be running at just 70 per cent, only 10 per cent up on early 1990.

To help recoup what money they can for repairs, Kuwait's hotel owners have clubbed together to set minimum room rates starting at KD45-KD55 for a single room — a rise of 30 per cent on pre-war levels. "No-one can afford a price war just now," says one manager.

The price rise is a bonus for hotels such as the Holiday Inn, the International, the Plaza and the Meridien, which have opened up several hundred rooms each and should manage their repairs without much disruption. Both the Plaza and the International reckon their refurbishments will cost about $3m, while the Holiday Inn expects to spend just over $1m.

However, the International will also proceed in the next two to three years with a previously planned $18m refit.

Work at the Meridien, where damage is reckoned to have cost $30m, is slightly more ambitious and will include a full rebuild of the gutted lobby by Pierre Rochon, the French interior design group. "We always thought the lobby was a little congested, but the Iraqis saw to it," says Mr Woods. He is coy about quoting a price for the work, saying only, and aptly: "It's going to cost a bomb."

The most urgent repairs are taking place at the Sheraton, where the owners are anxious about losing market share while the hotel is shut. Turner, the US construction group, is well under way with a full refit to the most modern and least damaged block. By August 15, a 200-room block will be open with a restaurant and full services. Further work will await the results of a structural report on the oldest block, which may require demolition and rebuilding.

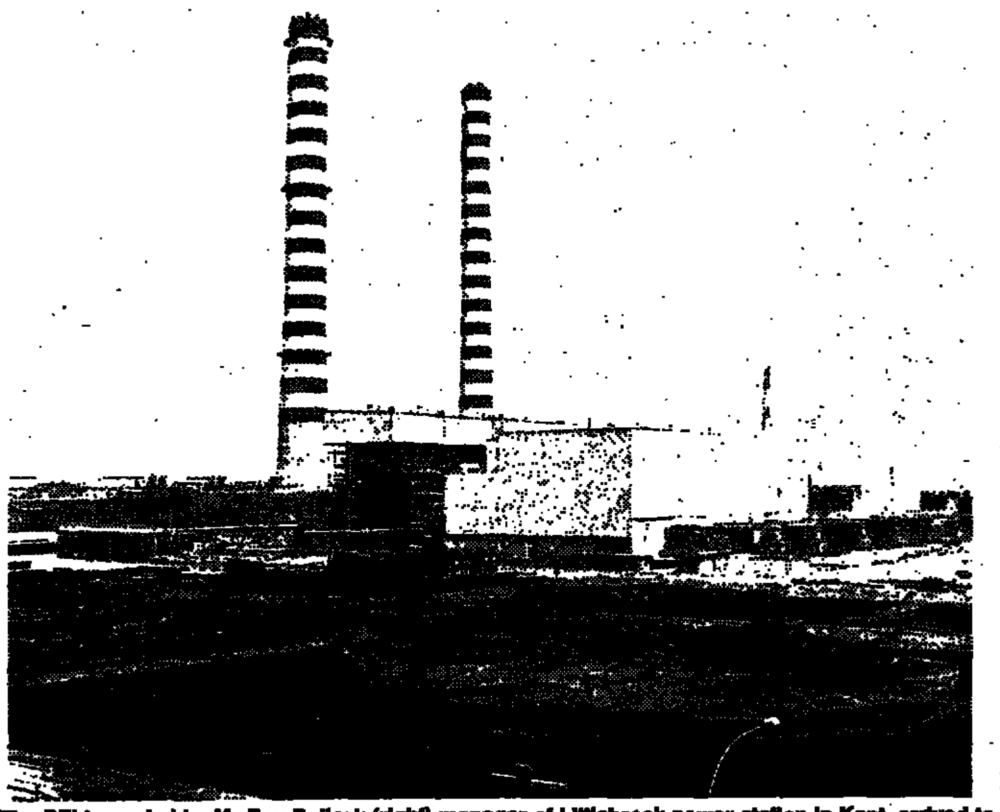
The assault was as vindictive as any of the Iraqis' acts of vandalism

The Regency Palace Hotel remains a sad, charred sight on the Gulf coast. No work on the building has begun and its owner is rumoured to be waiting for reparations payments before putting out contracts for its repair.

A little down the coast, the SAS hotel has begun cleaning out its main block and is studying plans to add two floors to the existing three to increase its tally of 210 rooms. More than 40 cabanas are already open as is the fitness club, now that the UN peacekeepers have vacated the squash courts which served as their headquarters.

Frequent guests will be delighted to learn that the SAS will also replace its 12 peacocks which, unfortunately, turned up on the menu in a barbecue during the Iraqi occupation.

Mark Nicholson



Alan Harper

The BEI team, led by Mr Roy Bullock (right) manager of Littlebrook power station in Kent, arrived to make an assessment of the damage at the Doha plant (left). They bypassed the large, shattered control room at Doha West (right) to enable the eight-unit station to be started up and, more or less, controlled from a small wooden box

ENERGY: 'restoring power opened the door to recovery . . . we could see what we were doing'

First aid treatment gives way to surgery

SINCE the lights came back on in Kuwait, few offices have burned more midnight oil than those of the ministry of electricity and water.

From the earliest candlelit days of liberation, restoring the emirate's power received the most urgent attention, not least because power in Kuwait is synonymous with water. The emirate's six power stations are each combined with desalination plants which produce the source of all but a relative cupful of the country's domestic and industrial fresh water.

Plans to build a 7th plant at Subiya in the north may also be put on hold

As with virtually every aspect of Kuwait's infrastructure, the departing Iraqis did their best to wreck what they could.

They blew up power plant boilers, shelled control rooms, bombed electricity substations and, with typical malice, stole operating manuals for the main power stations.

Overhead power cables strung from Kuwait's armies of pylons had meanwhile been severed in thousands of places, both by allied bombs and the retaliatory Iraqi anti-aircraft fire.

Furthermore, Iraq had run Kuwait's power plants for the seven months of occupation without maintenance. Thus, when the US Army Corps of Engineers (USACE) arrived on March 4, just six days after liberation, to assess damage to Kuwait's infrastructure, they worked on the assumption that none of the country's power plants would be operable.

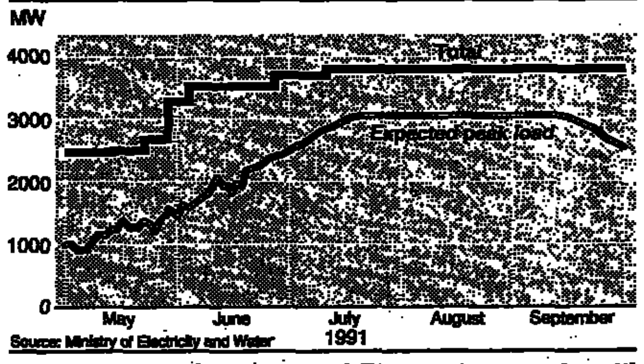
However, they were pleasantly surprised to discover that though the damage and mess were considerable, much of it had been randomly inflicted, leaving important parts of the power system in serviceable condition. The corps found that:

- Doha West, built in 1983 with a capacity of 55,230MW, had sustained serious damage to the control room, some boilers and the entire oil fuel tank farm;
- Doha East, built in 1977 and adjoining Doha West, also had a badly damaged control room, boilers and the fuel tank farm, shared with its sister plant;
- Al-Zour, Kuwait's most modern plant, built in 1988, was little damaged, but in effect cut off from Kuwait's grid because of serious ruptures in the local transmission cables;
- Shuaiba North had scattered damage to transformers, switchgear and boilers, while similar damage was inflicted at the plant's sister, Shuaiba South;
- Shuwaikh, Kuwait's first power station, built in 1954, was, according to one USACE expert "essentially inoperable", with serious damage to its transformers, turbines and boilers.

To compound the misery, the Iraqis had also detonated explosives at about half of Kuwait's substations.

Kuwaitis thus stumbled darkly through their first 30 days of freedom with candles, torches, a few generators and

ELECTRICITY
Proposed power generation units available



Source: Ministry of Electricity and Water

1.8m litres of bottled water a day, courtesy of USACE.

However, the breakthrough came not through USACE engineers but a group of Britons from British Electricity International, a subsidiary of National Power, with which Kuwait had a long-standing power management contract.

The BEI team, led by Mr Roy Bullock, manager of Littlebrook power station in Kent, arrived to make an assessment of the damage. However, after they had presented their findings, the Kuwait government asked simply if they could make emergency repairs. "It was a bit of a surprise," recalls one of the team. "I'd never had a full power station to play with before."

With few tools, almost no labour to help and a great deal of dogged ingenuity, the team eventually bypassed the large, shattered control room at Doha West to enable the eight-unit station to be started up and, more or less, controlled from a small wooden box, complete with eight gauges and a couple of switches.

Power experts in the emirate estimate that it will cost in the region of $20m apiece to repair Doha West, the two Shuaiba plants and Shuwaikh. Repairs to Doha East are thought likely to cost about $10m

Within a few weeks, Doha West, fuelled by tankers full of Saudi Arabian oil, was providing more than enough power and water for Kuwait's diminished population.

Supplemented by small amounts of transmissible power from Shuaiba and al-Zour, Kuwait was by May able to cope with peak demands above 1,100MW.

"It was quite an heroic task," says Colonel Ralph Locurcio, the USACE commanding officer. "Restoring power opened the door to recovery – with light and power we could see what we were doing, start up the water pumps, see what leaked and needed fixing."

However, as with most of the immediate repairs to Kuwait's infrastructure, limited emergency services were provided only by bypassing the points of real damage. Although by mid-July Kuwait's bandaged power and water stations are expected to provide up to 4,500MW of power and 159m gallons a day of desalinated water – far more than enough for its present 1m or so inhabitants – the road to full recovery will be long and costly.

"We've finished the first aid treatment," says Mr Ahmed al-Adsany, Kuwait's minister of electricity and water. "Now we're on the phase of surgery."

The first contracts of the recovery phase were being awarded in early June: a £3.6m deal with Bristol Babcock, the UK engineering group, to repair the control room at Doha West, and an expected $20m contract with Blount, the US construction engineers, to replace the station's smashed tank farm.

However, Mr al-Adsany reckons the full tally of permanent repairs will reach KD250m in a three-year programme which begins in earnest this month.

From that total, power experts in the emirate estimate that it will cost in the region of $20m apiece to repair Doha West, the two Shuaiba plants and Shuwaikh. Repairs to Doha East are thought likely to cost about $10m. On top of that come repairs to substations and transformers, 20 of which will need replacing at a likely cost of about $2m each.

By far the greatest share of the likely cost will go on replacing more than 3,200km of severed transmission cables. Work on this is already under way, both by Blount and Saudi Cable, and additional contracts will be awarded in the next two months for the remainder of the work, which the government expects to be completed within 10 months.

At present, the government has prepared a contract schedule to repair all six of Kuwait's power plants. However, Mr al-Adsany suggests that there is some ambivalence about restoring Shuwaikh, the oldest and most seriously damaged station. Under the schedule, work on Shuwaikh would

Iraq had run Kuwait's power plants during the occupation without maintenance

not begin anyway until January next year but, says Mr al-Adsany: "We're in no hurry."

Moreover, pre-invasion plans to build a seventh plant at Subiya in the north may also be put on hold. The proposed 2,400MW plant had won initial approval with Mitsubishi, the Japanese engineering company, set to provide the turbines. But Mr al-Adsany says a decision to go ahead with the project has been deferred. Mitsubishi has nevertheless combined with Westinghouse and Engineering Combustion of the US to tender a fresh bid for the possible contract.

Although the government's commitment to reducing Kuwait's population would suggest that the emirate could manage well enough with just five functioning power stations, this alone is unlikely to determine policy decisions on power.

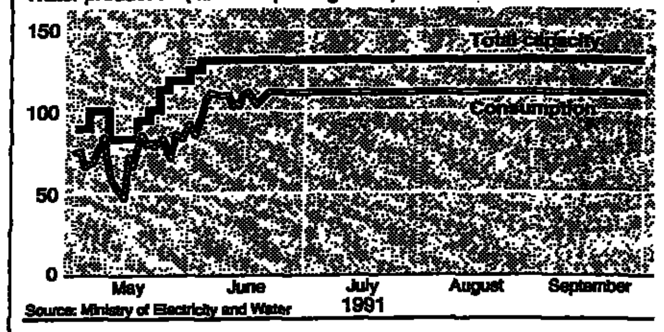
As Mr al-Adsany explains, in a land where supplies of fresh water depend on power, the government feels it cannot be too conservative. "Because we depend on making water, we have to make sure we have more than enough capacity to produce and store it."

Mark Nicholson

WATER & SEWAGE

Methane spoils homecoming for Kuwaitis

DISTILLED WATER
Proposed production capacity in power stations



Source: Ministry of Electricity and Water

A less than charming homecoming awaits returning Kuwaitis. Some will find that their abandoned homes have filled in their absence with foul-smelling methane.

When Iraqi troops blew up Kuwait's power plants in February, the city's sewage system came to a halt. With nothing being pumped through the system, gases have in the intervening months seeped up into houses and apartment blocks from the stagnant waste. "I hope the first thing people do when they come home isn't to light up a cigarette," remarks one US engineer.

Even last month, Kuwait's sewage system remained out of action and waste simply poured into the Gulf, much to the chagrin of the inhabitants of al-Salmiya, downwind. But they may take comfort from the fact that once the system's clogged pipes are cleared, Kuwait's sanitary system will not take long to repair.

The three main treatment plants at Jahra, Ardiya and Rikka were looted by the Iraqis and run throughout occupation without maintenance, but at least they escaped the vandalism inflicted elsewhere on Kuwait's infrastructure.

Morrison Construction, the privately-owned British company contracted by the US Army Corps of Engineers (USACE) to conduct emergency repairs on the water and sanitary systems, says that apart from repairs to a few leaks, the collection system and pipe network is substantially intact.

The same cannot be said of the water supply and distribution system. Full and permanent repairs to this could cost $100m, some experts say.

Kuwait relies for much of its water on desalinated supplies from combined power and water plants at the country's main electricity generating stations, and most sustained at least some damage at the Iraqis' hands.

Before the invasion, these plants could supply more than 250m gallons of water a day, well above average demand of some 120m gallons. Four brackish water fields could also offer up to 100m gallons, though these were used largely for irrigation and a little for blending with desalinated water to make it palatable. During the Iraqis' flight, boilers at the Shuwaikh and Shuaiba plants were ripped apart by explosives and require extensive repairs. Boilers were damaged at the Doha power and water complex. However, the most modern desalination plant at al-Zour – 115m gallons a day – was essentially untouched.

Morrison Construction has begun to repair numerous leaks in the 10,000km of water pipes, but says most are due to lack of upkeep during occupation rather than sabotage. Nevertheless, the company reckons to have won work worth some $200,000 a week from USACE since it began work and is still discovering fresh leaks.

The most serious rupture in the system is at the Mina Abdullah pumping station which brings water from the al-Zour desalination plant to Kuwait City. Iraqi troops used the vast, modern pumping house, which cost about $40m to build, as a base and drew heavy and accurate allied bombing. The control room, generator building and recirculation plant were all smashed.

Although some pumps have been successfully started up to give the plant about 25 per cent of its capacity, the government will tender this month to have the plant rebuilt – a task expected to take 22 months.

Among the groups known to have submitted proposals for the deal are British groups Weir Engineering and Acer Consultants. Two other British companies, Remsdaq and Weir Pumps, have won contracts to design and install control systems and pumps at al-Zour.

While Kuwait will be unable to return to full water production until work is finished on its power plants, in two to three years, the government has no worries about short-term supplies.

None of the country's 35 main reservoirs was badly damaged and, though they were run down during occupation, by June they had been refilled to 99 per cent of their 1.8bn gallons capacity.

Mr Ahmed al-Adsany, electricity and water minister, says he expects emergency repairs will by August enable the plants at Shuaiba, Doha and al-Zour to produce 159m gallons a day against likely demand of 85m-100m gallons.

Full pumping of brackish water is likely to resume next month, but 10m gallons a day is already being lifted – enough to make the available desalinated water drinkable.

Mark Nicholson

The wreckage of a British Airways jet at Kuwait City's airport. In the background is a US transport plane

■ THE AIRPORT: repair work may cost $50m

Be prepared for a long wait

THE arrivals board at Kuwait airport is frozen, as it was on August 2, 1990. The British Airways' flight it indicates was fated to be the last before the liberation.

Although the electronic board is stuck in time, all around is activity. Manure and the remains of the animals kept in the airport during the occupation have been swept away. Shattered glass has been removed. And the building echoes to the sound of hammering, welding and repair work.

Initial emergency repair work, supervised by Brown and Root, the US construction group which was contracted by the US Corps of Engineers, is well under way.

At the second and main terminal, five gates have been opened, two of which are capable of handling wide-body jets. Last month, five airlines, including Kuwait Airways, Gulf Air, British Airways, Egypt Air and MEA, were operating scheduled flights to the city.

However, large amounts of damage remain to be repaired, says Mr Zuhair al-Zamel, the airport director. One of the fiercest battles of the liberation took place only just outside the airport perimeter.

Mr al-Zamel estimates it will take about $20m to repair the damage to the main terminal alone.

One contractor reckons the cost of restoring the terminal together with the surrounding building under the authority of the director-general of civil aviation could be as high as $50m. The losses suffered by Kuwait Airways at the airport run to hundreds of millions of dollars.

"It's easy to destroy – a child can do it all too quickly," says Mr al-Zamel. "What takes longer – and is more difficult – is to create."

Some parts of the airport cannot be put together again. Terminal one, which was the smaller of the two terminals with a capacity of 1.4m passengers a year, will have to be demolished.

The building, refurbished only in 1986, was gutted by fire and its steel frame was irreparably buckled by the intense heat of the flames.

The more modern second terminal was luckier. Although five significant fires were deliberately started by the Iraqis, the building is operating. The capacity of the terminal, which should be able to handle up to 5m passengers a year, is still limited, however.

More than half of the bridged gates remain inoperable because of fire damage.

In 1989, when the civil aviation market was still buoyant elsewhere in the world, scheduled air movements at Kuwait airport increased by only 2 per cent to 25,000

These should be open by November, says Mr al-Zamel.

Another restraint on capacity is damage to other facilities in the main terminal which have been looted, burnt or simply vandalised.

In the departure lounge all of the computer terminals, digital scales and microsign displays have been systematically disconnected and taken back to Baghdad, explains Mr al-Zamel. The X-ray security machines and metal detectors were also removed, while much of the rest of the electronic equipment not looted was left in pieces. Checking-in at Kuwait remains an even more lengthy and dull process than in most airports.

About half of the luggage carousels in the arrivals hall have also been destroyed by fire. Van Der Lande, the Dutch company, has replaced the belts on two of the other carousels.

Outside the terminal, the surface of the main runways and aprons escaped serious damage. All of the airport's vehicles were taken or destroyed, however.

The airport also needs a new control tower to co-ordinate aircraft's approach.

A structural study has shown that fire damage to the tower is so extensive that it cannot be rehabilitated and will have to be demolished.

Mr al-Zamel says the airport's ground control tower can be repaired, as can the air traffic control tower which controlled all of the traffic over the Kuwait region. The equipment inside was looted or burnt.

The airport's long-range radar has also been destroyed, so that aircraft have to use Jeddah or Bahrain when flying to Kuwait.

A mobile replacement was ordered before the liberation from Raytheon, the manufacturer of the Patriot anti-missile missile. A permanent system should be installed by August this year.

One of the airport's main priorities will be to re-install the infrastructure necessary for 24-hour operations. At present, the airport can operate only between 4am and 6pm local time.

Both the airport's instruments landing system and its runway lights were removed, hindering aircraft's ability to land at night or in poor visibility.

This means that airlines that used to operate stop-over services from Europe to south-east Asia or back again are unwilling to use the airport at the moment.

In the longer term, Mr al-Zamel plans to use the destruction as an opportunity to implement pre-war plans to improve the airport. A new master-plan is being drawn up by Naco, the Dutch consultants based in the Hague.

"Before the war, we planned to demolish terminal one and replace it with a new building," the airport director explains. "Saddam Hussein did the first part for us."

He wants to build a new terminal with a capacity for 5m passengers. However, the timing of the construction of the new terminal will depend upon the rate of growth of air movements and passenger volumes.

Kuwait's pre-war recession had a marked effect on growth at the airport which has been slow in recent years. In 1989, when the civil aviation market was still buoyant elsewhere in the world, scheduled air movements at Kuwait airport increased by only 2 per cent to 25,000. Scheduled passenger volumes grew by 4 per cent to 1.2m.

Future growth in passenger demand will be directly linked to the economy and the size of Kuwait's population. Mr al-Zamel expects demand for labourers from Egypt, India, Pakistan, Bangladesh and south-east Asia to help passenger volumes.

The inability of Kuwaitis because of mines to pursue their favourite leisure activities – namely spending time by the sea or in the desert – may also create demand to travel abroad.

Kuwaitis admit that the city is far more claustrophobic than before. Nevertheless, forecasting future demand remains difficult.

The timing of the construction of a new terminal will also depend upon its priority compared with other projects in Kuwait.

Mr al-Zamel admits that ensuring the airport was functional as quickly as possible was initially a top priority.

However, in the longer term, the airport will have to compete with other projects for finance.

Even if the go-ahead for the new terminal is given immediately, it would take a year and a half to plan it, and another three years to construct the terminal.

In the meantime, even when the arrivals indicator is unfrozen, there remains plenty for the airport authorities to do.

Paul Abrahams

Paul Abrahams sifts through the wreckage of the nation's carrier

Phoenix rises from the ashes of Iraqi destruction

THE last 12 months have been traumatic for managers of the world's airlines. Billions of dollars have been lost as passenger demand collapsed and the cost of fuel, capital and insurance soared. But few airline managements have had to deal with the sort of catastrophe that has befallen Kuwait Airways since the Iraqi invasion.

"I can think of no other country or airline that has had to suffer like ours," says Mr Ahmad al-Zabin, director-general of Kuwait Airways. "The problems we have faced are unprecedented."

Last August, when the Iraqis invaded Kuwait, Mr al-Zabin's airline virtually disappeared. The national carrier lost its complete operating infrastructure, its headquarters, together with its computer reservations system and two-thirds of its fleet.

The damage and lost revenue caused by the invasion total at least $1.6bn, estimates Mr al-Zabin. That compares with profits of KD13m on a turnover of $428.8m in 1989, the last year when the airline posted results.

The most significant aspect of those losses, according to Mr al-Zabin, was destruction or seizure of much of the airline's fleet. The Iraqis took 12 of the airline's 20 aircraft, all of which were fully owned by the company.

Flights to Baghdad are unlikely to resume in the near future

Aircraft taken included eight Airbuses, two Boeing 767-200s and two 727-200s. Three government-owned jets operated by Kuwait Airways – a 727 and two Gulfstream G3s – were also seized.

A substantial proportion of the jets are unrecoverable, explains Mr al-Zabin. Both of the 767s, two of the Airbuses, and all the government aircraft were destroyed by the Iraqis or allied bombing.

The company has received a insurance payment of $300m for the destroyed aircraft from Lloyd's of London.

Meanwhile, six of Kuwait's Airbuses are in Iran, having been flown there during the war by the Iraqis. Mr al-Zabin says the Kuwaiti government is in negotiations with the Iranian authorities, through the United Nations, for the return of the jets.

Mr al-Zabin refuses, however, to speculate on the likely outcome of negotiations with the Iranians, adding that the talks are sensitive and highly political.

When the Iraqis invaded Kuwait the airline virtually disappeared. The national carrier lost its complete operating infrastructure, its headquarters, together with its computer reservations system and two-thirds of its fleet

He also declines to comment on speculation that the Iranians may be holding on to the aircraft to negotiate reparations from Kuwait for the country's support of Iraq during the eight-year Iran-Iraq conflict.

In the meantime, the airline's fleet has been reduced by more than half to only nine jets. These include four Boeing 747-200s, three ageing 727-200s and a 767, all of which were out of the country on August 2 when the Iraqis struck. A 727 has been returned from Jordan where it was flown by the Iraqis.

In the short term, the carrier has negotiated the lease of three long-range medium capacity jets – either 767s or A310s – which are to be delivered this month.

Mr al-Zabin says that in the longer term the airline intends to acquire 19 new jets by 1997, replacing both the lost aircraft and the rest of its ageing fleet. The new Kuwait Airways fleet will be smaller than the one before August 2, but will have a larger capacity, says its director-general.

At the Paris air show last month, the airline signed a $2bn contract with Airbus for up to 24 new aircraft. That included firm orders for three A320 narrow-body jets, three A310 and five A300 wide-bodied airliners and four A340 four-engined long-range aircraft. Kuwait Airways also took options on a further nine Airbus aircraft.

The acquisitions will be financed by operating surpluses – the airline was profitable for seven years in succession before the invasion – and through other forms of financing, explains Mr al-Zabin. But he is not willing to give details.

Meanwhile, the airline has some tricky operational problems. Not least among these is the complete destruction of the airline's infrastructure at Kuwait airport.

The carrier has lost its headquarters building which Mr al-Zabin says was deliberately burnt.

In addition, the airline's two new IBM mainframes controlling the computer reservation system and financial control operations have been stolen. The carrier has negotiated a link with the Aer Lingus reservation system until Kuwait Airways' computer can be replaced. The airline's catering and laundry facilities have been also gutted.

Controlling the airline's operations is also proving difficult. The operations centre was almost completely emptied of equipment.

Operations previously completely computerised are now being conducted on paper, says Mr Atef Kabbani, the Lebanese director of operations. He and his colleagues are having to push paper instead of computer buttons. "It is amazing the airline is functioning at all," he says.

Communications have also been difficult. In April, the operations centre had only four telephone lines and was dependent on a satellite telephone to contact the airline's aircraft outside Kuwait.

The airline is also operating without its two maintenance hangars. The smaller hangar has suffered most damage, with the servicing catwalks completely destroyed. The Ministry of Public Works is arranging for the repairs. In the meantime, the airline is servicing its aircraft in Abu Dhabi.

Mr al-Zabin says one of the most difficult problems facing the airline is a shortage of freight-handling facilities. One cargo hangar has been completely destroyed and the other is operating only at one-third capacity. At the same time, demand for air freight into Kuwait is almost insatiable. Some large private organisations, such as the al-Sayer Toyota dealership, have been forced to charter Boeing 747F freighters to fly in equipment.

Another problem is a shortage of spare parts. The Iraqis took the airline's complete stock, worth $150m.

Mr al-Zabin is negotiating with Lloyd's about the insurance payments for the parts as well as the company's ground handling equipment which was also taken or destroyed. If all of the aircraft in Iranian hands are returned, he expects to receive insurance payments of between $550m and $600m. If the aircraft are not handed over, the payments could be higher.

Mr al-Zabin explains that

I can think of no other country or airline that has suffered like ours

the airline has been forced to change its long-term strategy because of the war. The fleet mix will change, with an emphasis on medium-capacity long-range aircraft.

The airline's routes will also alter, with some less profitable destinations being cut. When asked which routes are likely to go, Mr al-Zabin pauses, and explains that some of the decisions are political. When pressed, he smiles and admits that flights to Baghdad are unlikely to resume in the near future.

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REBUILDING KUWAIT 18

■ORDNANCE CLEARANCE: a hazard in nearly every corner

Learning to live with bombs

NO-ONE can do more than guess how many lethal items of unexploded ordnance litter Kuwait's sands. All one can safely say is that there are many millions; or in the words of one US mine clearance officer who spent three months, 10 hours a day, seven days a week clearing bombs and mines from northern Kuwait, "an incomprehensible amount".

Like the task of extinguishing Kuwait's 600 blazing oil wells, the problem of clearing the country's post-war ordnance is unprecedented in scale. And like the oil fires, the problem – and therefore the opportunity – towers above any previously approached by companies seeking to do the work.

To give some perspective: the annual turnover of UXB, a Washington-based group which is one of the world's largest ordnance clearance companies and which for seven years has made a living clearing US military ranges, is roughly $10m and its previous biggest contract was $3m. In Kuwait, the company is bidding for clearance work worth perhaps $200m. "It's a mind-boggling opportunity," says Mr John Boyden, UXB president.

The war left a hazardous legacy in nearly every corner of Kuwait. The Iraqis sowed more than 5m anti-tank and anti-personnel mines along the state's beaches and its southern border, and in defences north of Kuwait City. Tonnes of unused ammunition lies in bunkers along the seafront, scattered across the desert and even in city houses, where green wooden crates full of grenades and rockets can still be found stacked to the ceiling of some Iraqi-commandeered billets.

On top of this are the hundreds of thousands of unexploded cluster bomblets dropped by the allied forces. It is a military rule of thumb that 10 per cent of such munitions fail to explode after they are dropped. In Kuwait's cushioning desert sands, experts believe as much as 30 per cent of these weapons failed to detonate. Oil firefighters in the southern oilfields, where Iraqi positions were heavily bombed, speak of acres of land where the bomblets lie scattered like deadly silver and orange mushrooms.

Alan Harper

Not everyone heeds government warnings about discarded ordnance: Kuwaitis show off a cache of Iraqi weaponry

In the first weeks after liberation, engineers with the allied forces cleared enough mines and bombs to make the country habitable, but at some cost. Eight Saudi soldiers were killed and 17 lost limbs in the first two weeks of clearing Kuwait's southern beaches alone. British and Australian divers cleared Kuwait's ports and coastal waters, while French EOD (explosives and ordnance disposal) officers swept the city's heavily mined northern beaches – finding as they did numerous Kuwaiti anglers fishing away oblivious to the deadly weapons hidden around their feet.

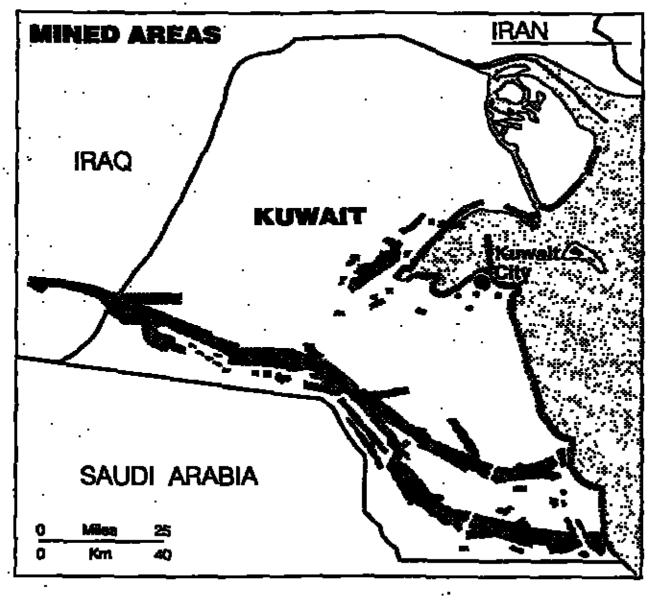
According to Lt Col Mike Brooke of the Royal Engineers, the early clearance operation was haphazard and unco-ordinated. "People were wombling about the beaches getting hurt," he says. To remedy this, he formed a central EOD command, carved Kuwait into sectors and delegated emergency clearance to allied forces in each sector.

The emergency clearance was completed early in May and the Kuwaiti government has decided to contract out the remaining clearance, far and away the bulk of the work.

The government has apportioned the task according to Lt Col Brooke's sectioning and has contracted the Bangladeshi, Egyptian and Pakistani armies to finish work in three sectors – largely covering the north and western desert.

In the British, French and US sectors, which embrace Kuwait City and the most heavily mined and fought-over areas of southern Kuwait, contracts are being awarded to private companies. For most of them, the task is a leap into uncharted territory.

The first contract was won by Royal Ordnance, a British Aerospace company, to clear the British sector and all Kuwait's oilfields in a deal believed to be worth at least $170m. For the first four months of the contract – which is expected to take at least two years to complete – the company has employed the services of 150 men from the 21st EOD Squadron of the Royal Engineers, amid cries of foul from rival bidders who claimed this to be a direct government subsidy. Eyebrows have also been raised about soldiers risking their lives for a commercial contract.



Royal Ordnance will eventually train enough of its own staff – largely ex-army EOD officers – to complete the work, the danger of which was underlined in June by the death of one of its EOD specialists near the Saudi border.

A team of 400 support staff has been hired to back up 400 British workers and provide a base camp and the complex logistics necessary for a job which embraces clearing and destroying Iraqi positions, removing tanks and armoured vehicles and, in the oilfields, innovative engineering tricks to clear away lakes of oil to get at the unexploded munitions.

Royal Ordnance members are even going door-to-door in Kuwait to clear out a section of the city – and finding that not all Kuwaitis are eager to give up garage-loads of guns and grenades.

By late June, contracts had still not been awarded for the French and US sectors. The largest single contract will be for the US sector, where competition is between three companies: UXB; States International, a group set up by its president Mr Paul Sutton, who made his fortune selling executive jets to rock stars, expressly for the opportunity offered in Kuwait; and Olin Ordnance, a US munitions company. The victor's prize is likely to be a deal worth $200m or more.

However, the final cost of cleaning up Kuwait will undoubtedly far exceed the sums for this first rash of contracts. The government is apparently determined that the country should be rid absolutely of its wartime ordnance – a task which most experts say will be possible, if at all, only after many years and many more millions of dollars.

Contractors are working at present on the basis that the land they clear can be returned safely to its previous use. But much of Kuwait's desert will never be safe for families to roar over in their four-wheel-drive vehicles during a traditional camping weekend. Thousands of squash-ball sized Italian anti-personnel mines sown in southern Kuwait are, for instance, nigh-on undetectable and will slip through even the finest EOD professional's net.

As one US EOD officer remarks: "I still get calls from staff people in Pennsylvania to come out to clear ordnance. When I get there I find it's left over from the civil war. Kuwaitis are going to have to learn to live with their bombs."

Mark Nicholson

■PORTS: *recovery takes longer than expected*

Underwater obstacles

SHUWAIKH is a ghost port. The large complex stands ransacked and abandoned. Tugs lie burnt-out and half afloat in the harbour. Next to them, the listing hulk of the al-Hila cement ship sits sabotaged at its moorings. A line of vast pole-axed cranes lies crumpled in the port basin.

At the dockside, looted warehouses stand silent, emptied except for the occasional bottle of Iraqi mineral water. Outside the buildings, more than 1,000 vehicles litter the dockyards, tyres snatched, doors open and engines ripped out and dissected for spare parts. Nothing moves, apart from the occasional flapping of port authority documents scattered and caught on barbed wire.

This devastation was once Kuwait's busiest sea terminal. Before the war, it handled more than 7m tonnes of cargo a year. The damage there and at Kuwait's two other ports, Shuaiba and Doha, is estimated by the United Nations at more than $1bn.

"The sabotage was frighteningly efficient," says Mr Abdul Rahman al-Naibari, acting director general of the Kuwait ports authority. "After mining Shuwaikh's harbour, the Iraqis even moved the navigational markers in the approach channels. Any ship approaching the port immediately after the liberation would have run aground."

Although Mr al-Naibari announced in April that Shuwaikh should be operational within 45 days, shipping agents in Kuwait said last month that the damage had been so extensive that a further two to six months would be needed before the port opened fully.

The port basin will have to be cleared of deliberately sunk obstructions including an Iraqi patrol boat with three live missiles on board; warehouses and administrative buildings will have to be refurbished and re-equipped; gantries and cranes will need replacing or repairing; and unloading vehicles will have to be acquired – nearly all have been looted by the Iraqis.

By June, most Kuwaiti imports were still being imported via Saudi Arabia along the coastal road leading up from Dhahran to Kuwait City.

Shuaiba, the only Kuwaiti port presently capable of berthing large sea-going craft, is nonetheless beginning to handle increasing quantities of cargo following its opening on March 12.

Shipping agents estimate that ships are now unloading there at a rate of about 30 a month.

Most early produce passing through Shuaiba was transported by CSX, the Virginia-based US transport group, and its subsidiary, Sea-Land Logistics. The companies were contracted to supply both the government and the US Corps of Engineers with materials for the emergency reconstruction phase.

Following their success during the war and immediate post-liberations period, the US groups are hoping in the longer term to expand their market share in the region. Sea-Land has only been operating in the Gulf for a couple of years.

Shuaiba, in the early days after the liberation, was a conduit for food, water, hospital equipment, clothing, telecommunications components, fire-fighting material for the oil fields and commercial vehicles. Most had to be unloaded at

Logistics remain one of the most difficult problems to overcome

Jebel Ali, a free port in the United Arab Emirates, and then placed on barges before being sent to Kuwait.

Now, large quantities of consumer items are being directly sent to Kuwait via Shuaiba to replace goods seized by the Iraqis.

In particular, the port is being used to unload large numbers of cars from the US and Japan. General Motors has more than 10,000 vehicles in the pipeline, while Toyota imported 1,200 units in June, and plans to send between 1,600 and 1,700 a month for the foreseeable future.

Groups other than CSX offer direct operations to Shuaiba. They include London-based Gulf Ro-Ro which offers a 21-day service from north-west Europe to Kuwait. Its agents are the Athens-based International Shipping Agency.

Labour remains the most difficult problem in importing goods, says Mr Roy Phillips, a consultant brought into Kuwait by Gulf Ro-Ro.

"Most of the skilled workforce has fled," he says. "The 50 Palestinians who used to manage the stevedoring at Shuwaikh, together with the 250 Sri Lankan and 500 other Asian operators, have simply disappeared."

Shortages of cranes, forklifts and mobile equipment are also acute, says Mr Phillips. Four of the cranes at Shuaiba are out of operation, so that self-sustaining container and cargo vessels with their own lifting gear find operating at the port far easier.

Lack of storage facilities means that all cargo has to be met at Shuaiba, warns Mr Phillips. Otherwise the goods are back-loaded to Dubai. He says a number of companies have been caught out this way. Most shippers demand letters of guarantee for the additional transport and storage. These can prove difficult to obtain from Kuwaiti banks, although larger groups have fewer problems.

The shortage of labour and high insurance costs mean that rates to Kuwait are approximately 20-25 per cent higher than before the war, depending on the type of cargo and packaging.

Meanwhile, companies requiring goods more urgently have to compete for cargo space on the few airlines operating into Kuwait Airport. Capacity is tight, as Kuwaiti passengers, on occasions loaded with scores of bags, return to their country.

Some couriers have had difficulty ensuring regular and reliable services to Kuwait. Customers say packages sometimes take as long as two weeks to arrive.

Several groups have overcome problems by chartering their own cargo aircraft. The al-Sayer group chartered a 747F to import spare parts for its Toyota dealership. CSX has used DC8s, G5 Galaxies and even Soviet Antonovs to airlift urgent equipment.

In spite of such efforts, for both foreign and domestic companies logistic remains one of the most difficult problems to overcome.

Paul Abrahams

BUSINESS GUIDE

Healthy doses of Vitamin W are vital

THE days when visitors to Kuwait needed to bring their own vehicles, tinned food, bottled water, torches and other camping gear are long gone.

Living conditions and business services are improving steadily as Kuwait moves from emergency repairs to long-term reconstruction. But visitors should be aware that the country – with the unfortunate exception of its bureaucracy – has not yet been restored to its pre-war state.

Some useful tips:

● **GETTING THERE**
Most visitors need to obtain visas, a process which has become particularly time-consuming, even for former residents. Airlines serving Kuwait include British Airways, Kuwait Airways, Emirates (from Dubai), Gulf Air (from Bahrain), and Egypt Air (from Cairo). Flights fill up quickly and it is worth booking well in advance, at least until other airlines begin to fly into Kuwait. The main terminal has been repaired and the only problem likely to affect arriving passengers is the smoke from nearby oil well fires which can delay flights.

● **TRANSPORT**
There are plenty of taxis at the airport, although the number operating in Kuwait City is limited. Hiring cars has been difficult in recent weeks but should become easier as more new cars arrive in the country. Avis, which has an office at the Holiday Inn, is offering cars with drivers for KD38 a day. Al-Mulla at the International Hotel has been leasing cars for longer periods. Another option is al-Khaled car rentals in the Shuwaikh industrial area *(Tel: 4834236)*.

● **ACCOMMODATION AND FOOD**
The main hotels, some of which were damaged by the Iraqis shortly before they left, are charging about KD50 a night for a single room, and food in hotel restaurants is expensive. Amenities such as swimming pools, health clubs and tennis courts, are mostly up and running. Leading hotels still operating include the International *(2530000)*, the Holiday Inn *(4742000)*, the Meridien *(2455550)*, and the Plaza *(2438800)*. The Sheraton *(2422055)* expects to open on August 15. Among the cheaper hotels are the Carlton Tower *(2452740)*, the Oasis *(4265489)* and the Second Home *(2532100)*. "Britcamp" *(3918631)*, south of Kuwait City in Fahaheel and run by Biwater, also has accommodation and food. For those suffering from a surfeit of hotel buffet food, a few quality and fast food restaurants have begun to open, particularly in the Salmiya district.

● **COMMUNICATIONS**
Access to international telephone lines to the US and the UK has improved rapidly, although the situation varies from hotel to hotel, but problems have been reported with calls to continental Europe. The domestic network is patchy and making contact may be difficult as many Kuwaitis are still out of the country. Telex but should be restored within weeks. Federal Express, TNT and DHL all offer courier services but some customers have complained of long delays.

● **MONEY**
Visitors no longer need to bring thousands of dollars in cash. All the commercial banks are operating, and payments can be made with charge cards or travellers' cheques. Beware of being given your change in worthless, pre-invasion Kuwaiti dinar notes.

● **DOING BUSINESS**
Kuwait, like all the Gulf states, is a working environment which requires patience and determination. Kuwaitis are exceptionally polite to strangers – they will often drive you or guide you to your destination if you are lost – but they have lost none of their flair for driving a hard bargain with foreign contractors. It is vital to establish lasting relationships with Kuwaitis who have the right business contacts: the local word for this sort of influence is *wasta* or "Vitamin W" to some expatriates. Government ministries work only in the mornings, but senior officials and private sector businessmen can often be found in their offices in the evening. Many Kuwaitis are not likely to return to the country until September, and those who stay generally like to relax between 1.30pm and 4pm.

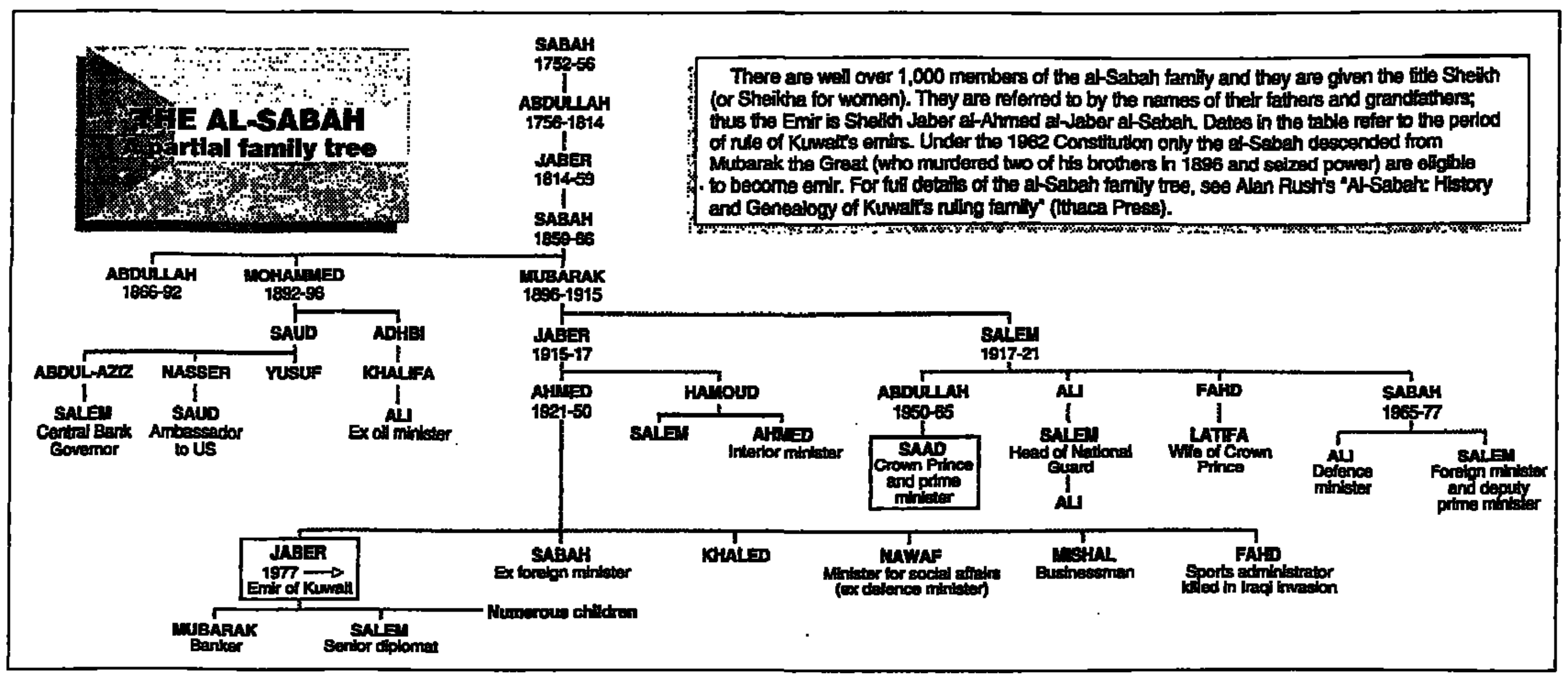
● **OTHER ADVICE**
Smoke pollution from the oil wells is not thought to be a health risk for short-term visitors, unless they have a previous history of respiratory illness. However, people intending to spend long periods in or near the oilfields may wish to purchase face masks for their visit.

The danger of landmines and unexploded ordnance from the war cannot be overstated. You should stick to the main roads and treat even those beaches and other areas which have been cleared with caution. It is illegal to import alcohol.

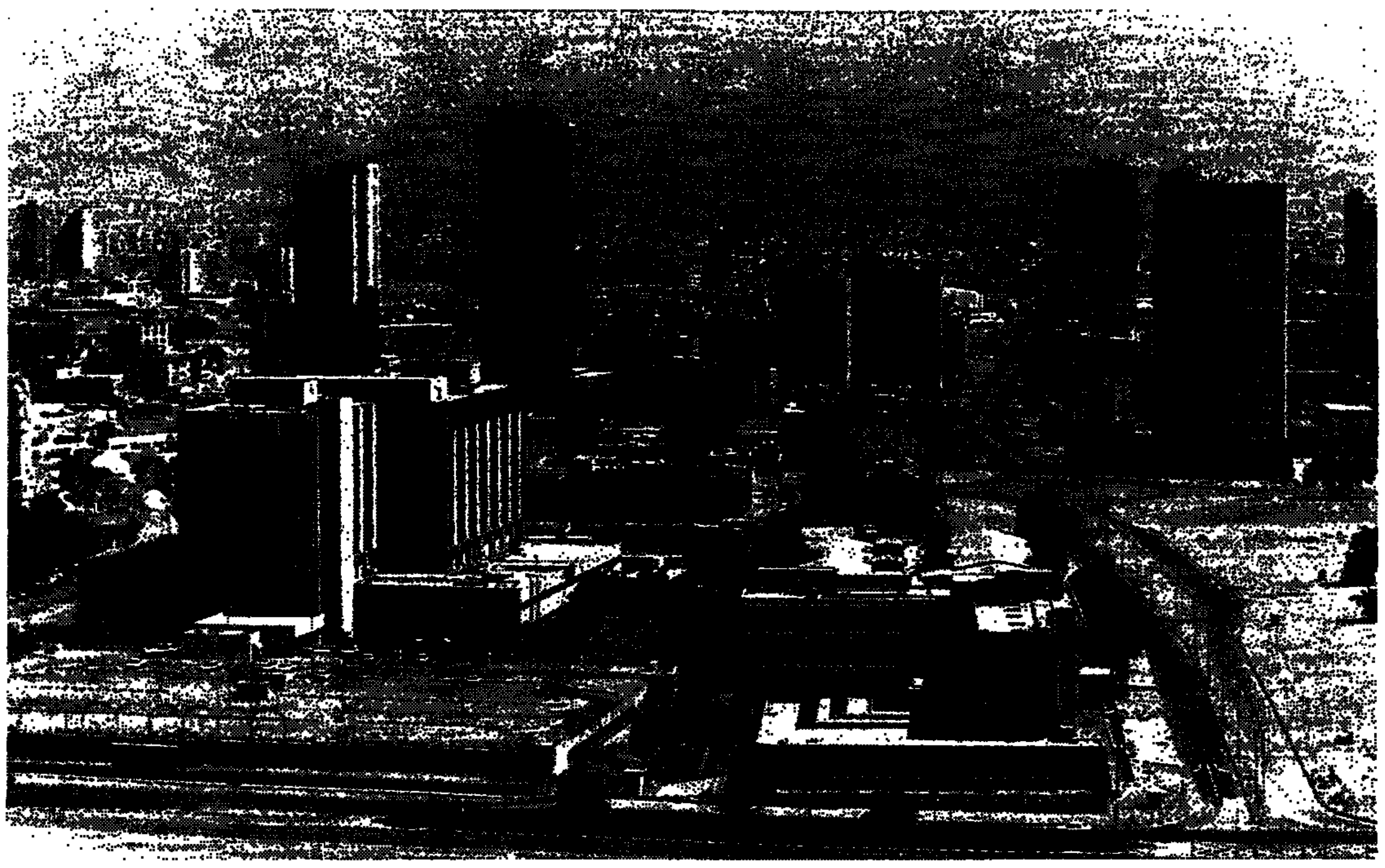
● **SUGGESTED READING**
A 144-page United Nations report released in April gives a thorough breakdown of the physical damage caused by the occupation and the war in most sectors of the economy. National Bank of Kuwait, the leading commercial bank, has issued a useful booklet entitled Doing Business in Kuwait. Ernst and Young is preparing a business guide. Useful books about Kuwait include Peter Mansfield's Kuwait: Vanguard of the Gulf (published by Hutchinson), Rosemarie Said Zahlan's The Making of the Modern Gulf States (Unwin Hyman) and, for those interested in who's who at the top, Alan Rush's Al-Sabah: History and Genealogy of Kuwait's Ruling Family (1752-1987).

Foreign newspapers have begun to trickle in to Kuwait. They are usually a couple of days old, although censorship had not begun by the end of June. Censored Kuwaiti newspapers have started to appear, but none of the English language titles was sighted before this survey went to press. A Reuters news service is available at the International Hotel.

Paul Abrahams
Victor Mallet
Mark Nicholson



There are well over 1,000 members of the al-Sabah family and they are given the title Sheikh (or Sheikha for women). They are referred to by the names of their fathers and grandfathers; thus the Emir is Sheikh Jaber al-Ahmed al-Jaber al-Sabah. Dates in the table refer to the period of rule of Kuwait's emirs. Under the 1962 Constitution only the al-Sabah descended from Mubarak the Great (who murdered two of his brothers in 1896 and seized power) are eligible to become emir. For full details of the al-Sabah family tree, see Alan Rush's "Al-Sabah: History and Genealogy of Kuwait's ruling family" (Ithaca Press).



Alan Harper

One of the few benefits of the Iraqi invasion was that it temporarily solved Kuwait City's traffic problems (see page 15)

■THE ENVIRONMENT: there is some confusion over the extent of the damage

Disaster leaves experts guessing

Alan Harper

Regional catastrophe: Iraqi troops left more than 600 oil wells burning or gushing in the desert at the end of February

FEW legacies of the war to liberate Kuwait will be more enduring or more bitter than the environmental havoc wrought by President Saddam Hussein's army in the last days of the conflict.

His order to sabotage Kuwait's oil industry as his troops withdrew left more than 600 oil wells burning or gushing in the desert at the end of February.

This unprecedented act of environmental vandalism easily overshadowed the pumping of millions of barrels of Kuwaiti crude oil into the sea the previous month – a tactic designed to ward off an American amphibious landing which was never seriously contemplated by the allies.

The result is a catastrophe of national and regional – but not, apparently, global – proportions. Large plumes of smoke billow from the blazing oilfields, periodically shrouding Kuwait's urban areas in a fog of soot and darkening the sky as far afield as Bahrain. Black, acid rain and snow have been reported in Iran and further east. Treacly rivers and lakes of oil have formed in the Kuwaiti desert. Plants and birds die, their pores and their feathers clogged with grease.

Initial observations suggest that the smoke has not risen high enough in the atmosphere significantly to affect the world's climate, although ground temperatures drop by as much as 10 degrees centigrade in the shadow of the three main smoke plumes. It is too early to predict with any accuracy how dangerous the pollution will be for Kuwaitis and their neighbours because the type and the scale of the disaster are unique.

"The deliberate torching of the oilfields represents Kuwait's most pressing environmental problem of today, beside which all else pales into insignificance," says a UN damage report. "There has never been anything like it in history."

Preliminary assessments are nevertheless beginning to emerge, and foreign companies with environmental products have been quick to see the opportunities. In the UK they range from Imbach, the damage control and biotechnology group, to Impak of Cambridgeshire, which has developed a face mask to filter out smoke particles and poisonous gases. Alpha Environmental of the US wants to apply its oil-eating bacteria to the mess in the Kuwaiti desert.

"You are not talking about one part of the environment,

'If all the scientists in the world get together to solve this problem they might get somewhere'

but the whole thing – air, water, land, plants, wildlife – and humans," says Mr Ibrahim Hadi, secretary of the Environment Protection Council. He points out that the smoke will eventually be suppressed as firefighters cap the wells, while other, more fundamental problems will endure.

Not the least of these is the presence of landmines and unexploded ordnance throughout Kuwait. Two or three people are being killed or injured every day. "The effect of that will be worse than air pollution," he says. As for the smoke, measurements by several groups, including the US Environment Protection Agency, and by two functioning Kuwaiti monitoring stations indicate tolerable levels of poisonous gases. Kuwaiti figures show that carbon monoxide is the only gas which approaches dangerous concentrations, with a peak of 7.29 parts per million compared with the US alert level of 10ppm. Nor is there immediate official concern about hydrocarbons sinking through the sand into Kuwait's groundwater, because water for the national network is drawn from the sea and desalinated or pumped from deep natural reservoirs rather than from the water table.

However, some residents of Kuwait believe that the potential dangers of hydrocarbon pollution on such a scale are not sufficiently understood for anyone to feel confident about the future. They point to anecdotal evidence of respiratory problems among Kuwaitis following the liberation and to the long-term risks of cancer from soot particles and from the lighter fractions of crude oil such as benzene.

They fear that poisons are entering the food chain both on land and at sea. They question the data from air monitoring not on the grounds of accuracy but of relevance – such tests are designed for cities affected by vehicle exhaust fumes or industrial waste, not for areas sprayed with a cocktail of soot and oil which is often only partially burned. The UN report refers to the lack of data about heavy metals known to be present in Kuwaiti crude oil.

Dr Jassem al-Hassan, head of the biochemistry department at Kuwait University and one of the volunteers who formed the Kuwait Environmental Action Team, rejects the relatively soothing reports of the Kuwaiti authorities and international agencies as premature. "I myself am suffering, my chest, my eyes and my throat," he says. "I cannot believe that these are natural and acceptable. Something is wrong somewhere . . . These wells contain aromatic hydrocarbons which are cancer-causing," he says. "There is no established science for dealing with this."

Other scientists are optimistic about the short-term effects of the air pollution. They say that people who see the smog are convinced that it must be poisonous, but that Kuwait's air – which is very dusty even without pollution – is still remarkably clean. Firefighters working on the oil wells have had physical examinations before and after their first spells in the field and show no undue ill-effects.

The probable effects of the 4m to 10m barrels of oil pumped into the Gulf by the Iraqis are appalling in their own way but better understood. In the words of Saudi Arabia's National Commission for Wildlife Conservation and Development, "the occurrence of oil pollution [in the Gulf] is 47 times higher than the average estimate for other marine environments."

Favourable winds kept the slick away from the Kuwaiti coast, but tonnes of oil was washed ashore in northern Saudi Arabia. There are fears for the Gulf's coral reefs and for the seagrass beds which nourish manatees and shrimps.

The Kuwait-based Regional Organisation for the Protection of the Marine Environment (Ropme) has its work cut out in the years ahead. During the Iran-Iraq war between 1980 and 1988, Ropme was one of the few organisations where the two sides met face to face, attempting to solve the environmental problems caused by their own conflict, but the Iraqi flag is, for the time being at least, conspicuous by its absence in the flag-lined reception area of Ropme's headquarters in Kuwait.

"We weren't ready for an intentional oil spill," says Dr Badria al-Awadhi, Ropme's technical and administrative co-ordinator, although she agrees that it could have been even worse. The Iraqis laid but never used a double pipeline from the Rawdatain oilfield in northern Kuwait to the coast, apparently intending to flood the sea with crude oil as they did in the south. "Maybe this region now will think more about the environment," says Dr al-Awadhi.

Kuwaitis will certainly be thinking about the quality of the air they breathe for many months to come as the firefighters and oil workers move from sabotaged well to sabotaged well.

"If all the scientists in the world get together to solve this problem they might get somewhere," says Dr al-Hassan. "You need all the expertise, all the technology, all the goodwill, to understand what's going on. It's horrible."

Victor Mallet

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FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 8 1991

INSIDE

Rothmans buys Spanish stake

– While tobacco group BAT was entertaining the chairman of Tabacalera, the Spanish manufacturer and distributor of tobacco, at the Wimbledon tennis championships in London, rival Rothmans was busily buying a stake in the group. The deal for 3.9 per cent of Tabacalera is likely to unsettle both BAT and Philip Morris, which have joint ventures with Spain's fourth-largest domestic company. Tom Burns reports. Page 16

Between a rock and a hard place

The German government is on the spot. As the costs of unification soar, it increasingly relies on private investors for funds. Voluntary declaration of investment income is just one way it encourages German investors to keep funds in the country. But the grievance of a civil servant has resulted in the revelation that half the country does not declare its investment income. This leaves the finance ministry with an undesirable choice: fairness in the tax system or risk of capital flight. Page 18

ADT firm on NYSE listing

ADT, the controversial security and car auction group headed by Michael Ashcroft (left), is expected to submit a formal application for a New York Stock Exchange listing within the next week or so. The move to obtain a listing is likely to go ahead despite reports, which the company was unable to confirm yesterday, that its credit rating has now been downgraded by IBCA, the UK rating agency. Page 14

Gilts glitter in boom week

It has been a week that gilt practitioners will remember for some time. After several months in the doldrums, the market took off. Several factors were behind the better conditions for gilts, one of them being a substantial increase in the volume of interest in the securities by overseas investors. Peter Marsh reports. Page 18

Market Statistics

Companies in this issue

Paris traders call for reforms

By William Dawkins in Paris

PARIS stock market professionals have asked Mr Pierre Bérégovoy, the French finance minister, to consider wide-ranging reforms to stem a flow of business to London and other financial centres.

The study, led by Mr René de la Serre, managing director of Crédit Commercial de France, the privatised bank, proposes a dozen measures to improve brokers' financial controls, to toughen supervision, reduce costs and encourage private equity investment.

It comes in response to the increase in international competition and the financial pressures faced by Paris stockbrokers since the ending of fixed commissions in 1989. This will intensify from next January when French brokers lose their monoply of stock exchange seats.

The study is to be presented for approval to the Conseil des Bourses de Valeurs, the regulatory body, before being published officially tomorrow.

It recommends the abolition of turnover tax on share trading, held to be a factor in the shift of trading towards London, where an estimated 30 to 40 per cent of transactions in leading French stocks now takes place.

There is no turnover tax on French shares traded in London. However, the Finance Ministry is understood to be reluctant to abandon this source of tax revenue – likely to bring in about FFr2bn ($324m) this year – at a time when its income is being squeezed by the economic slowdown.

The study also calls for stockbrokers to be allowed to trade large blocks of shares at privately agreed prices, rather than having to stick to official market prices for all types of deals.

It also recommends the establishment of equity savings plans, with tax incentives to encourage more private investment.

The report calls for broking firms to be obliged to segregate their trading, back office execution, portfolio management and custody of securities, along Anglo-Saxon lines. The aim is to improve investors' confidence in stockbrokers' financial security, following the bad publicity created by last summer's spectacular collapse of Tuffier et Associés. The firm is under investigation for possible fraudulent use of clients' securities to cover its trading losses.

French brokers are already starting voluntarily to segregate parts of their businesses. Even some of the bank-owned firms have moved custody operations to their parents in an effort to reassure clients.

S African borrowers find solace abroad

Simon London reports on the return to international bond markets after years of financial isolation

South African borrowers have been making a steady but low-key return to the international bond markets.

So far, activity has been restricted to the private bond markets of Germany and Switzerland. However, the country's gradual rehabilitation with international investors should soften the austerity enforced on its economy by more than five years in the financial wilderness.

Few details are made public by either the borrowers or the banks concerned, although such private placements have never been formally banned under sanctions. Fragmentary evidence suggests that the level of borrowing by South African companies and government bodies has been increasing since 1988 and has accelerated sharply this year.

Many bond issues made in the early 1980s are being successfully refinanced. In the first half of this year, South African borrowers had 10 international bond issues falling due for redemption, totalling $600m equivalent, according to figures compiled by the Centre for the Study of the South African Economy and International Finance at the London School of Economics.

The centre estimates that about half of this amount has been refinanced.

A breakthrough came in May, when Eskom, the state electricity utility, placed a $50m bond issue with a group of international investors. The proceeds of the issue were not used to refinance a maturing debt. It marked the first time that "new money" had been raised by a South African borrower since existing loans were locked in under the debt standstill of 1985.

"South Africa is undergoing a gradual rehabilitation which began in late 1988, but it is still a long way from the levels of borrowing which characterised the early 1970s and the early 1980s," said Mr Jonathan Leape, director of the centre.

In addition to privately – placed bond issues, there is also evidence of small-scale bilateral lending by Swiss banks in the late 1980s. Swiss central bank data suggests lending in the region of $50m in this period. However, there is no way of knowing which banks lent to which South African borrowers.

There have also been a small number of trade-linked financings. The largest identifiable such operation this year was a $60m loan from the Export-Import Bank of Taiwan to the South African Industrial Development Corporation. The facility was signed by the Taiwanese foreign minister during a visit to South Africa in January. But, though export credit cover is available from several countries, the lead does not appear to have been followed by other governments.

Commercial banks are unlikely to resume lending until existing loans are freed and provisioning requirements are eased. For example, Bank of England guidelines suggest that UK banks make provisions of about 20 per cent against loans to South Africa.

Hence, the international bond market offers South African borrowers the best chance of raising long-term international finance. The appetite of continental European retail investors, who were big buyers of South African paper in the 1970s and early 1980s, is reviving. In April, Crédit Suisse added a selection of rand-denominated South African government bonds to its "buy list".

According to South African stockbrokers, the level of buying of government bonds by overseas investors is closely linked to political stability. This is backed up by the data collected by the Centre for the Study of the South African Economy.

"The experiences of 1976 and 1985 suggest that a sharp escalation of township violence or disintegration of political negotiations between the government and opposition would swiftly cut off the supply of international loans," said Mr Leape.

Deepening economic or political gloom could quickly de-rail the process of rehabilitation in the international debt markets. As yet, the South African economy shows no sign of recovering from a recession which has lasted for more than two years.

"Available statistics are, as yet, not indicating any turnround in the near future," said the South African Reserve Bank in its latest quarterly bulletin last month.

However, access to international finance could be an important pre-condition of economic recovery. The moratorium on new international bank credits which came into effect in 1985 forced the government to run a current account surplus, pushing the economy into recession. New inflows of foreign capital would allow the government to run a current account deficit, stimulating economic growth.

Foreign borrowings still do not come cheap. Eskom's DM120m ($65.5m) four-year private placement completed in March pays an interest rate of 10.75 per cent. By comparison, around the same time Mexico was borrowing in D-Marks over five-years at an interest rate of 10.5 per cent.

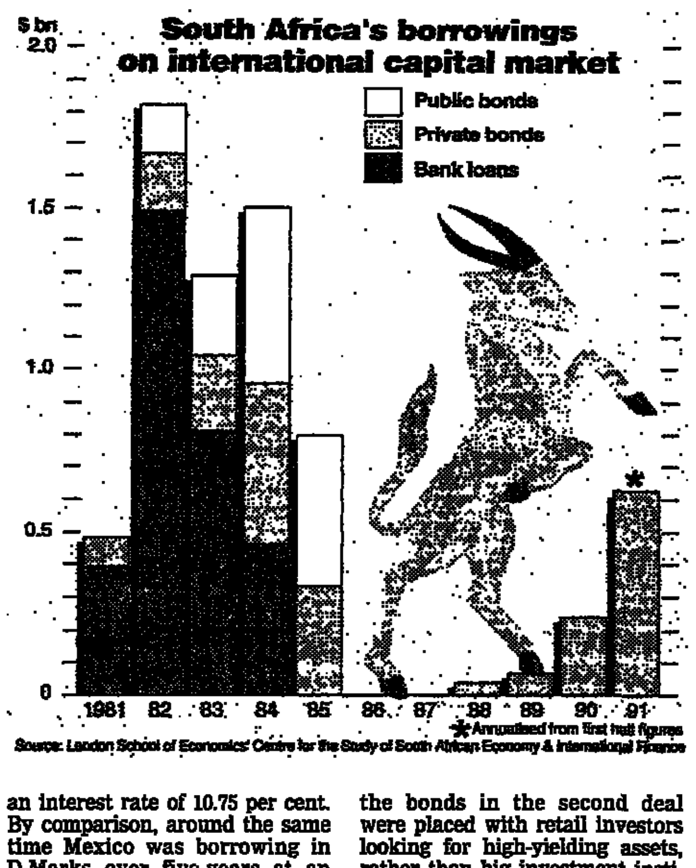
But pricing is getting progressively easier, according to Mr Mick Davis, finance director at Eskom. The company's $50m placement of bonds in May was offered a yield of 2.4 percentage points more than US Treasury securities. This was a 0.4 percentage point improvement over the interest rate paid by the South African government on a three-year bond issue the previous month.

Other borrowers include Transnet, the railways group, which placed DM50m of four-year bonds in June, and the Department of Post and Telecommunications, which arranged a four-year DM150m private placement in May.

BHF Bank, which lead-managed both deals, was reluctant to give details. However, an official commented that the majority of the bonds in the second deal were placed with retail investors looking for high-yielding assets, rather than big investment institutions. Mr Davis confirmed that the Eskom bonds had been placed with individual investors.

The lack of institutional participation limits the amount of fresh money which can be raised. If South African borrowers are to make bigger, public bond issues, then pension funds and insurance companies will have to participate. In turn, it is unlikely that institutional participation will increase until international sanctions are lifted.

"Our being able to launch a public issue depends on the way investors perceive the risk of South African borrowers, the external view of the sanctions question and the direction of bond prices at any given moment," commented Mr Davis. "But my guess is that it will come quite soon. Perhaps six months or perhaps one year, but it will come."



Source: London School of Economics' Centre for the Study of South African Economy & International Finance

TVS set to reveal bid for franchise

By Raymond Snoddy in London

TVS ENTERTAINMENT, the ITV company for the south of England, is close to revealing the size of its cash bid in the competitive tenders for new ITV franchises. It is believed that TVS has offered about £50m ($80m) a year for the franchise.

Virtually all the ITV companies and rival bidders have been keeping the size of their bids secret – even though there is no compulsion to do so.

TVS – in the middle of a restructuring – fears there will be a false market in its shares if the size of its bid is not revealed until October. This is when the Independent Television Commission is due to reveal the franchise winners.

The company's restructuring includes the introduction of Time Warner of the US and Associated Newspapers as significant shareholders.

The two groups plan to invest £30m in the financially-troubled ITV company – as long as it retains its franchise.

TVS, which got into financial trouble because of its $320m purchase of MTM, the independent US production company, believes it must reveal all relevant information on the restructuring in a circular to shareholders within the next four weeks.

All the signs are that the company's bid is higher than those of its three rivals: Meridian, led by Lord Hollick's MAI group, Mr Michael Green's Carlton Communications and the Richard Branson/David Frost CPT-TV consortium.

TVS, under the chairmanship of Rudolph Agnew, former chairman of Consolidated Goldfields, took the view that its financial problems and the desirability of its southern region meant that the only rational strategy was to ensure victory with a high bid.

If the Independent Television Commission is happy that the company's business plan could sustain such a high bid, then TVS will win its franchise in virtual perpetuity.

When the 10-year franchises near the end of their terms, a company can make an additional payment to the government to renew for "one or more" times. The new franchises are due to start at the beginning of 1993.

The ITC has decided to keep the bids submitted on May 15 secret until the decisions are announced.

If TVS breaks ranks because of its restructuring, more of the 16 ITV companies might follow suit.

Economics Notebook

London summit headlines mask main agenda

SCAN THE world's media and there's no doubt about the big story at next week's London economic summit: help for the Soviet Union and the visit immediately afterwards of President Mikhail Gorbachev.

Poll international businessmen about what they hope from the summit and there's no contest: progress towards a successful conclusion of the Uruguay Round of trade liberalisation talks.

As the the summit has drawn nearer, lobbying in support of the round has become intense. Last week, a delegation from the International Chamber of Commerce called on UK Prime Minister John Major, the summit host, to say that the Uruguay Round was the "most important and urgent issue" on the agenda.

The week before, Mr Harry Freeman, a former banker who heads an organisation called the MTN coalition representing 14,000 US companies, was in London to drum up British support for a wide-ranging trade agreement.

Among the briefing papers of the summiteers will be the final communiqué of this year's ministerial meeting of the Organisation for Economic Co-operation and Development. That statement, agreed last month by the finance, foreign and trade ministers of the OECD's 24 industrialised member countries, declared that "the Uruguay Round has the highest priority on the international economic agenda".

So, thus primed, will the leaders of the US, Japan, Germany, France, Britain, Italy, Canada and the European Community be able to reach a deal on trade?

The answer is almost certainly no. "Summits are useful occasions for world leaders to sound each other out and to endorse decisions suitably prepared in advance," says Sir Roy Denman, a former EC trade negotiator. "That is what happened in 1978 when the summit in Bonn endorsed the outline Tokyo Round Agreement emerging between the US and the EC. But in the absence of something cooked up in advance, eight distinguished men meeting for two days – when a *tour de table* on a single subject can take several hours – have neither the time nor the expertise to mediate in such horribly complicated areas as agricultural subsidies."

That is a lesson that Mr Major – at his first economic summit as prime minister – will hear from his fellow leaders.

Discussion at last year's Houston summit centred largely on differences between the US, the EC and Japan over the reform of agricultural trade which is a central item on the Uruguay Round of multi-lateral trade negotiations.

The Houston summit ended with a ringing declaration in which the leaders stressed their "determination to take the difficult political decisions necessary to achieve far-reaching, substantial results in all areas of the Uruguay Round" by the end of 1990.

Last December, however, the talks were suspended specifically because of the problems associated with reducing agricultural protectionism.

Since then, the talks have been relaunched, without a specific deadline, as a result of an understanding among the participants that the important farm trade issues would be dealt with explicitly and with flexibility.

Last month, there were some welcome signs of glasnost at the OECD ministerial meeting. The 24 countries "confirmed their commitment to achieving substantial progressive reductions in agricultural support and protection" in the context of the talks taking place under the General Agreement on Tariffs and Trade (Gatt).

But there are still several reasons to suppose that the Uruguay Round is an unpromising area for summit achievement.

Leaders can propose but cannot always dispose. Agriculture ministers do not attend summits and were not at last month's OECD meeting. Yet their co-operation is vital for farm reform and the future of the trade round.

Admittedly, next week's meeting may benefit from a new willingness on the part of the European Commission to reform the common agricultural policy. But discussions on the reform proposals of Mr Ray McSharry, the EC farm commissioner, are at an early stage and unlikely to bear fruit before next spring.

Another key point, often overlooked because of the concentration of media interest on the farm question, is that other aspects of the Uruguay Round are almost as contentious.

The US is particularly keen to extend Gatt rules to services, which now account for 20 per cent of world trade.

Last month in Brussels, however, Ms Joan Spero, an executive vice-president of American Express, complained "there was no apparent resolution of the services stalemate". She said any services agreement must include a framework of principles as well as substantial liberalising commitments from signatory countries, but "neither (of these) is yet in place".

Next week's summit of the G7 (or G8 if the EC is counted as a participant in its own right) may represent the greater part of world economic output. But even if all EC members and the Soviet Union are considered – however indirectly – to be participants, only 16 nations will have a foot or a toe under the table. This compares with 108 participating nations in the Gatt round.

The Gatt talks are of mind-boggling complexity. So many participants and interests are wrangling over issues as contentious and diverse as trade in services, farm products, textiles and clothing, the trade-related aspects of intellectual property rights, investment and disputes procedures, as well as the future role of the Gatt.

It is hardly surprising that some observers, including Ms Spero, have started to "think the unthinkable" – namely what nations should do if the round fails.

Interestingly, neither Ms Spero nor Sir Roy Denman believe that failure would produce an all-out trade war of the type that occurred after the US enacted the infamous Smoot-Hawley tariff in 1930. Instead, Ms Spero speaks of a "guerrilla war" of "small steps backwards with no overall international umbrella organisation forging positive changes". Sir Roy sees the danger of a "damaged, impotent Gatt and the removal of a check against creeping erosion" of the post-Second World War trading system.

But such outcomes would constitute a dire setback to Mr Major's aspirations for the G7, at next week's summit and beyond, "to build international partnership and strengthen the international order" following the collapse of communism. For this reason alone, the G7 leaders can be expected to try to give a "push" to the Uruguay Round, even though last year's similar efforts ended in something of a fiasco.

Peter Norman

UPS to invest $200m in Europe

By Paul Abrahams in London

UPS, the US parcel delivery group, plans to invest up to $200m to acquire a domestic express delivery business in France and the UK. The company needs the acquisitions in the two countries to complete its European expansion.

Mr Larry Long, vice-president for Europe at UPS, refused to identify targets. However, the largest candidate in the UK would be Securicor Omega, the parcels subsidiary of Securicor which last week contributed substantially to the group's 56 per cent fall in first-half pre-tax profits. Securicor Omega has about 11 per cent of the UK express parcel delivery market.

UPS has trailed the three other big international express organisations – TNT, DHL and Federal Express – in building up a pan-European network. Although UPS delivers 11m items a day in the US, it is the smallest of the groups in Europe, handling only 500,000 a day.

The company has been in Germany for more than a decade, but has only recently made acquisitions in Italy and Spain. Mr Long said the group would look for targets in Scandinavia following expansion in France and the UK.

Few international express parcels organisations are profitable in Europe. UPS and Federal Express are losing money in the region, while TNT is just profitable. UPS expects to reach profitability by 1994.

The European express delivery market is worth less than a quarter of that in the US, where it is valued at more than $20bn a year.

ADT prepares for New York listing

By Bernard Simon in Toronto and Jacqueline Moore

ADT, the controversial security and car auction group, said it had almost completed preparatory work for a New York Stock Exchange listing and is expected to submit a formal application within the next week or so.

The move to obtain a listing therefore seems likely to go ahead despite reports, which the company was unable to confirm yesterday, that its credit rating has now been downgraded by IBCA, the UK rating agency. The rating move has been expected since IBCA said in April it had placed ADT on RatingWatch.

However, an ADT spokeswoman said that it had still not been possible to complete discussions on the selection of four independent directors, as agreed last April between ADT and its biggest shareholder, Laidlaw, the Ontario-based waste services and school bus operator.

Under the agreement, which followed an acrimonious row between the two companies, two directors are to be nominated by each company subject to approval by the other.

Laidlaw initially hoped to announce the new directors' names by the time of ADT's annual meeting in early June. It later aimed to complete the process by the end of last month.

The search for independent directors appears to be complicated by the requirement that they serve on ADT's audit committee. They will therefore have the delicate task of examining Laidlaw's allegations of far-reaching irregularities in ADT's accounting practices.

Further clarification on the relationship between ADT and Laidlaw is likely to emerge after a Laidlaw board meeting this week. The Canadian company will publish its quarterly earnings on Wednesday and will brief analysts in New York on Friday.

When it placed ADT on RatingWatch for downgrades in April, IBCA said: "Whilst ADT appears to have two reasonably based businesses (in security services and auctions), in credit terms these are overshadowed by other negative features, including potential volatility in group structure and financial position, financial reporting practices, and possible financing needs in 1994."

Serco in £260,000 joint venture

Serco Group, the Surrey-based task management contractor, is investing £260,000 in a new joint venture with European Handling Management to provide support services to the airline industry.

The venture, Sercair, will offer baggage and passenger handling, aircraft cleaning, ground transportation and maintenance to airlines.

Robert Fleming downturn

By Richard Waters

ROBERT FLEMING, the merchant banking group, saw its post-tax profits fall from £36.5m to £31.8m for the year to March 31.

That suggested the group was more resilient than others to the downturn in merchant banks' business last year, although the full picture was obscured by undisclosed transfers to inner reserves.

Mr John Manser, chief executive, said the company was considering abandoning such transfers next year, although it was unlikely to disclose the full extent of its reserves until forced by European law in 1993.

Fleming held its dividend at 27.5p, the first time it had not increased the payment since the early 1970s, according to Mr Manser.

Asset management, the largest contributor to profit, provided a stable core to the group's earnings, with £27bn under management at the end of the year.

Mr Manser added that banking business had also performed well, with the bank making only small provisions against bad debts. The loan book had shrunk from £690m to £638m, but would now be expanded to take advantage of higher interest margins.

Jardine Fleming, the investment bank based in Hong Kong of which Robert Fleming owns 50 per cent, reported profits of HK577m for the year, up 10 per cent.

Airlines of Britain expected to make small profit this year

By Paul Betts, Aerospace Correspondent

AIRLINES OF Britain Holdings expects to make a small pre-tax profit of about £5m this year after incurring a loss for the first time in the last six years in 1990, Sir Michael Bishop, the chairman, disclosed in an interview.

Turnover for the group, which includes British Midland Airways, Manx Airlines and Loganair, is expected to rise to £335m (£292m) and Sir Michael said the group should make a modest pre-tax profit of about 1 per cent or 2 per cent of sales.

After a rough first two months this year, there had been a good recovery, he said. Passenger volume had increased by 4 per cent in the first half to 1.67m passengers and British Midland was expected to carry almost 4m passengers for the whole of this year.

This year's first half loss was lower than that for the corresponding period with the airline making a profit in the second quarter.

He did not disclose the extent of the group's total losses last year, but said it included a £1m write-down on the company's stake in Davies & Newman, the parent company of Dan-Air, to reflect the current market value of the investment.

In addition Sir Michael said that over-capacity on the Glasgow-Heathrow shuttle, where British Midland is involved in a fierce battle with BA, had cost his airline £4m in profits.

The costs related to the group's loss-making operations at London City Airport, including the absorption of London City Airways into British Midland, were also written down in the 1990 accounts.

British Midland has a stake of 3.1 per cent in Davies & Newman, according to Davies's latest annual report.

Davies & Newman is currently seeking £40m in a refinancing. Sir Michael said his group had no plans at present either to participate in the refinancing or to sell its stake.

FDR pays £146m for Signet

By David Waller

FIRST DATA Resources, the US-owned credit card processing company, has completed the acquisition of Signet, the largest third-party processor of credit cards in Europe. The purchase price is £146m.

Signet was formerly owned by the Midland, National Westminster, Lloyds and the Royal Bank of Scotland. In January it was announced that the banks had reached broad agreement for the sale to FDR, a subsidiary of American Express based in Omaha, Nebraska.

Sale proceeds are at the upper end of the £100m-£150m range cited in January. No details of Signet's profitability or ownership structure have been published although some information has emerged after the Midland was obliged to put out an announcement under Stock Exchange class rules.

This disclosed that the Midland had a 30 per cent stake in Signet which contributed £1.6m to the bank's pre-tax profits in its last financial year. Its share of the proceeds is £34m.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Carlsberg (Denmark)	Cruzcampo (Spain)	Brewing	£59m	Guinness sells 10%
Komatsu (Japan)/Connell (US)	Danly-Komatsu (JV)	Metal presses		30-70 split
Thermo Electron (US)	Tace (UK)	Environmental control equipment	£24.9m	Queue lengthens for Tace
CRH (Ireland)/AKA Germany	JV	Building materials	£21m	CRH expands German operations
Aegis (UK)	Carat Espana (Spain)	Media buying	£10.3m	Stake upped to £75%
Hitachi Construction/ Tadano/Marubeni (all Japan)	Blackwood Hodge (Australia)	Construction equipment	£8.5m	BM cements Japanese relations
British Vita (UK)	Unit of Leggett & Platt (US)	Foam & rubber	£6.8m	BV's first buy in sector
ABN Amro (Holland)	European American Bank (US)	Banking	n/a	ABN Amro takes full control
Asahi (Japan)	Splintex (Belgium)	Glass auto parts	n/a	Asahi takes 45.9%
T & N Group (UK)	Osinek (Czechoslovakia)	Brake products	n/a	Correction

Source: FT Mergers & Acquisitions International

Banks scorn Lonrho proposal for Brent

By Roland Rudd

THE STEERING committee of bank lenders to Brent Walker has rejected a tentative proposal purporting to come from Mr Tiny Rowland's Lonrho offering to take on the company and its debt.

An adviser who has seen the proposal said: "The offer was a complete joke. The proposal arrived in a letter without the Lonrho letterhead or a signature from its author. The terms were ill defined and poorly worked out."

Lonrho executives were not available for comment yesterday, but the document suggested the company wanted detailed information about the current state of the Brent Walker's finances before negotiations could take place.

This has proved unacceptable to Brent's banking syndicate.

Brent Walker will meanwhile this week put new proposals to the group's bondholders after the original agreement proved unacceptable to several of the banks.

The company has decided to go back on an earlier agreement to treat the bondholders as secured creditors after several of the banks threatened to put the group into receivership.

Several of the 47 banks were furious that holders of the £102m convertible bond were going to be ranked ahead of them in the creditors queue.

Many of the banks have still to agree the rescue plan involving the conversion of the group's £1.3bn debt into £250m of new equity.

Talks over the next few days will be critical to the company's future. Some of the banks believe the group could be made bankrupt by the end of the week.

COMPANIES AND FINANCE

Repsol plans Pta247bn investment programme

By Tom Burns in Madrid

REPSOL, Spain's state-controlled energy group that was partially privatised two years ago, is to invest Pta247bn ($2.1bn) over the next five years in modernising plants and improving products.

The investment plan, one of the most ambitious of its kind unveiled by Repsol, aims to meet an expected increase in competition in the domestic market following the recent purchase by British Petroleum of Petromed, a second Spanish oil company, and the acquisition by Elf Aquitaine of France of 35 per cent of Cepsa, the main private refiner.

Repsol said new coking units, to raise the production of high quality, desulphurised petrol, would be installed at the group's refineries in Bilbao and Cartagena, and that existing coking facilities at its Corunna plant would be increased.

A hydro-cracking unit to convert vacuum gas oils will be built at the group's refinery in Tarragona, and a new pipeline will link the Cartagena refinery and Repsol's inland production base at Puertollano.

The investment will lift Repsol's capacity to refine high octane products from 27 per cent last year to 43 per cent. It will halve the present refining capacity of heavy products, such as fuel oil, to some 15 per cent of the total output.

Unleaded "extra" high-octane petrol, which represented 0.3 per cent of Repsol's sales in 1989, could represent 20 per cent of the group's petrol production by 1995, and the remaining 80 per cent of the group's petrol production will be a mix of unleaded "Eurosupre" petrol and high-octane leaded petrol.

Rothmans buys Tabacalera stake

By Tom Burns in Madrid

ROTHMANS, the UK tobacco group, has paid Pta6.9bn ($61m) for 3.9 per cent of Tabacalera, Spain's monopoly manufacturer and distributor of tobacco and the country's fourth-largest domestic company.

Rothmans said yesterday that the equity had been offered to it by the US brokers Salomon Brothers, who were acting on behalf of Caja de Madrid, one of Spain's leading savings banks.

The shares had been acquired as "a good investment". The acquisition is likely to unsettle rival international tobacco groups Philip Morris and British American Tobacco (BAT).

Both have joint ventures with Tabacalera, and Philip Morris has a 1.83 per cent shareholding in the Spanish group.

An addded irony is that the deal appears to have gone through while Tabacalera's chairman Mr German Calvillo was being entertained by BAT at the Wimbledon tennis championships in London.

The shares were the last big tranche in Tabacalera held by a Spanish private sector institutional investor. Tabacalera is 52 per cent-owned by the finance ministry's holding company, the Patrimonio del Estado. Foreign investors now own 33 per cent of Tabacalera.

Rothmans paid Pta4.760 per share for its stake, or Pta750 per share more than Philip Morris paid in February for its Tabacalera shares.

Tabacalera made a 1990 profit of Pta18.8bn on sales of Pta596.6bn.

Decision near on fate of two French groups

By William Dawkins in Paris

THE fate of two of France's most politically sensitive potential company failures will be decided in the next fortnight.

The companies at stake are VEV, the struggling textiles group which employs 11,000 people in some of France's most depressed areas, and SMT-Goupil, which employs only 750 but occupies a strategically significant sector as France's last remaining independent maker of microcomputers.

Both are under the supervision of the interministerial committee for industrial reconstruction (Ciri), part of the French finance ministry and the engineer of some of the biggest bail-outs of the past decade.

The future of SMT-Goupil, to be decided on Thursday, looks grim, according to Ciri officials.

However, at least two potential private buyers have proposed rescue plans for VEV and the the government says a decision on its future will be made by July 20.

SMT-Goupil filed for bankruptcy on June 18, under the weight of losses caused by falling prices and a growing debt load – FFr750m ($120.77m) – inherited from a management buy-out four years ago.

The government unsuccessfully tried to persuade Olivetti, the Italian electronics group, to rescue SMT-Goupil, as a result of which the French group's judicial administrator must decide by Thursday whether it can be kept afloat.

France Télécom, which owns 17 per cent of the shares, is understood to be unenthusiastic about putting more cash into the group.

Mr Dominique Strauss-Kahn, industry minister, has said the VEV candidate must have "not only financial aims but a real industrial strategy".

However, he feared redundancies were inevitable.

VEV, which announced a net FFr800m loss last year, has been supported since May by a temporary lifeboat provided by its bankers and the French government.

The two groups which had tabled rescue plans with the Ciri by the end of last week are Dynaction, a small conglomerate specialising in industrial buy-outs, and a two-man consortium of Mr Emmanuel Coste and Mr Joël Picard.

Delta, Pan Am hold talks

By Nikki Tait in New York

DELTA Air Lines, the third largest US carrier, has held further talks with Pan Am, the bankrupt international airline, over the purchase of Pan Am assets, but said on Friday the talks had proved "inconclusive".

Delta declined to be drawn on how far the talks had progressed, or what obstacles had emerged.

It did, however, confirm that no further talks were scheduled.

It had already made public its interest in Pan Am's east coast shuttle operation, together with its Frankfurt hub and remaining trans-Atlantic routes. It said it would "contemplate offers" for up to 6,000 of Pan Am's employees and be willing to buy up to 45 aircraft.

Pan Am has generally stressed in the past that it was looking for a buyer which would acquire its operations as a whole, rather than engage in a further piecemeal disposal programme. However, 10 days ago, Mr Tom Plaskett, Pan Am's chairman, said he was pleased to learn of Delta's interest and invited the airline to make a formal offer for the assets.

HK SE rejects reforms

THE Hong Kong stock exchange has rejected reforms requested by the government's securities watchdog, an exchange official said, Reuter reports from Hong Kong.

The proposed reforms include widening membership of the exchange's ruling council to include more independents, and transforming the exchange from a limited entity into a non-profit entity.

The exchange was given until August 1 by the watchdog Securities and Futures Commission (SFC) to introduce the reforms voluntarily. But the exchange's ruling council rejected the package on Friday by a one-vote majority.

"We are still continuing the dialogue," said Mr Francis Yuen, chief executive of the council. He gave no further details.

If there is no agreement by August 1, the SFC can invoke statutory powers to force the reforms through.

The SFC was set up in 1989 after a government-commissioned report said the exchange was run on the lines of a private club, for the benefit of a small group of members.

The stock exchange has been hit by a series of scandals, including last year's jailing of Mr Ronald Li, former chairman on corruption charges, and the resignation in May of a senior executive over an attempt to get newly-listed stock first-buy privileges for council members.

Dresdner launches DAX derivative using money-back warrants

By Katharine Campbell in Frankfurt

DRESDNER Bank today launches a derivative instrument based on the DAX blue chip stock index in the form of "money-back warrants". These allow investors to profit from stock market rises while protecting their capital if the market falls.

The issue will raise up to DM100m ($54.60m) for Mitsubishi Finance International of London. It applies to the index a concept which was introduced a few weeks ago by the private Düsseldorf bank Trinkhaus & Burckhardt for individual shares.

In the last year, there has been an explosive growth in D-Mark derivative instruments within Germany. Dresdner Bank, for its part, has been particularly keen to promote the DAX index with variations including DAX warrants, DAX participations and DAX high coupon bonds.

Today's warrants, which are guaranteed by the Tokyo parent bank, have a life of 5¾ years, and are priced relative to the value of the DAX on the day of purchase. Friday's close of 1618.91 would give a price of DM162. On maturity, investors receive money back in the same proportion to the index, subject to a maximum of DM400 if the DAX has reached 4,000 or more.

The money-back element means Mitsubishi will repay the original sum invested, if the DAX has stayed static or fallen during the period.

However, investors get no interest, which means they are effectively paying a substantial premium to insure against steeply falling share prices. Mitsubishi, for its part, will obtain interest-free money, but has to meet the cost of hedging its exposure to the stock index.

A DAX level of around 2,700 would be needed at maturity to offer a return equivalent to the present interest rate available on fixed-income securities of 8.6 per cent, says Dresdner Bank, which is marketing the product to both institutional and retail investors.

Portugal closes most of bond market to foreigners

By Patrick Blum in Lisbon

PORTUGAL'S central bank has stopped all foreign purchases of Portuguese floating-rate bonds until the end of the year to curb "speculative capital inflows" into the country.

Mr Jose Alberto Tavares Moreira, the bank's governor, said the move, which effectively closes the Portuguese bond market to foreigners, takes effect immediately.

The measure would be reviewed at the end of the year. All floating-rate bonds such as the FIPs – which have attracted considerable foreign investor interest – issued by the Treasury, as well as similar bonds issued by companies will now be out of bounds to foreign buyers. Other securities, including fixed-rate Treasury bonds, where yields are lower than for floating-rate paper, are unaffected.

The central bank has been concerned at rising foreign capital inflows, which, it says, fuel inflation and play havoc with Portugal's monetary policy targets. Foreign investors have been attracted to the market by the high interest rates and the escudo's stability.

The central bank warned twice last month it may allow a "significant adjustment to the escudo rate" to dampen foreign enthusiasm for short-term investments and gains. The warnings, however, had a limited and temporary effect.

Mr Tavares Moreira said about $2bn worth of foreign investments have gone into floating-rate government securities in the past 12 months.

Sandoz acquires diet group

SANDOZ, the Swiss drugs and chemicals group has agreed to buy the dietary products company Dietetique et Sante, a unit of the French group Rhône-Poulenc Rorer, the two companies said in a statement, Reuter reports from Paris. The price was not revealed.

The sale is in line with Rhône-Poulenc Rorer's strategy of focusing on its core business of human pharmaceuticals, the statement said.

Dietetique et Sante and its Dietisa subsidiaries in Spain and Italy specialise in dietary products for adults.

NRI TOKYO BOND INDEX

December 1983 = 100	4/07/91	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	155.82	7.15	155.22	153.61	151.51
Government Bonds	153.35	7.01	152.58	151.23	149.72
Municipal Bonds	157.65	7.25	156.96	155.32	154.04
Govt.-guaranteed Bonds	160.53	7.29	159.96	158.29	156.13
Bank Debentures	152.94	7.20	152.53	150.00	148.28
Corporate Bonds	159.31	7.35	158.91	156.79	152.77
Yen-denom. Foreign Bonds	165.09	7.67	164.87	160.89	156.49
Government 10-year†	6.69		6.78	6.67	6.64

† Estimated par yield

Source: Nomura Research Institute

APPOINTMENTS

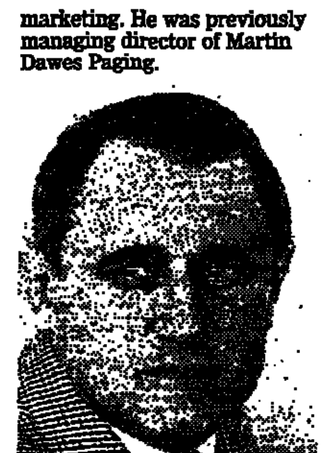
New chief for Ward Group

■ At THE WARD GROUP Mr Wilf Ward is to retire as chairman on August 1. He will remain on the board as a non-executive director. Mr Ward founded the company with his brother Frank in 1946.

Mr Nigel Forsyth, chief executive, will take up the position of chairman and retain his role as chief executive.

■ Mr Philip Fotheringham has been appointed an executive director of FIRST EQUITY HOLDINGS. He remains director of First Equity Ltd, the equity inter-dealer broker.

■ MERCURY PAGING has named Mr Gareth Davies as its new director of sales and marketing. He was previously managing director of Martin Dawes Paging.



■ Mr Peter Gubb (pictured) has been appointed commercial director of THAMESMOUTH PRINTING GROUP, Basildon. He was group accounting director with Hunterprint Group.

■ CRANFIELD CONFERENCE SERVICES has appointed Mrs Christine Wilson, company secretary, to the main board.

■ Hull-based FREEBOOTER SEAFOODS, a member of the Booker fish division, has appointed Mr Reg Eamonson as sales and marketing director. He was general sales manager.

■ THOMAS BURNLEY & SONS, Cleckheaton, has appointed Mr Stewart C. Pearson as sales and marketing director.

■ Mr Kieran Hehir has been appointed sales and marketing director of CARADON TERRAIN, a subsidiary of MB-Caradon and a UK manufacturer of UPVC plumbing and drainage systems.

■ Mr Graham Kendall has been appointed chief executive of the SHEFFIELD DEVELOPMENT CORPORATION. Mr Kendall has been acting chief executive of the development corporation since July 1990, on loan from the Employment Department's training agency where he was a director. The post became vacant when the former chief executive Mr Keith Beaumount took early retirement in the summer of last year.

■ McKENNA & CO has appointed Mr Mark Henrick, Mr John Naccarato and Mr James Richards as partners in the corporate finance and banking departments.

■ DE MORGAN GROUP has appointed Mr Martin Smith as a director on the main board. He is currently joint managing director of de Morgan & Co, the commercial property agency subsidiary of the de Morgan Group which he joined in March 1991.

At de Morgan & Co Mr Philip Moore has been appointed head of general practice.

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Italians boycotted over Federconsorzi

SEVERAL leading US, Japanese and European banks are boycotting business with Italian state-controlled borrowers because of the scandal surrounding Federconsorzi, the financially troubled Italian farm services co-operative.

In some cases, the banks are advising Italian clients to stay away from the syndicated loans and international bond markets until the Federconsorzi affair has been resolved.

Many international bankers regarded Federconsorzi as state-guaranteed and wanted their syndicated loans to be repaid promptly by the Italian government. This looks unlikely. Last week, it emerged that the commissioners appointed to run Federconsorzi would seek court approval for legal procedures paving the way for gradual liquidation.

It has been pointed out that the Federconsorzi fiasco is starting to bear some resemblance to the case of DFC, the New Zealand merchant bank which collapsed in 1989. In that instance, three Japanese banks exposed to DFC were thought to have put pressure on the New Zealand government to bail out the bank by refusing to participate in a New Zealand government bond issue. The issue was postponed.

So will international bankers behave in the same way towards Italy to punish the government for not bailing out Federconsorzi?

The flow of Italian deals in the first few months of 1991 has dried to a trickle. Some borrowers, such as Mediocredito Centrale, have resorted to private loan arrangements.

Bankers point out that in view of the Federconsorzi affair, any Italian state-backed borrower coming to the syndicated loans market would probably have to pay a relatively high price.

US banks which have featured prominently in arranging these deals have admitted that they are not keen to take on Italian business at present.

Furthermore, it is understood that some Italian borrowers who had been looking at the possibility of coming to the loans or bond markets when the Federconsorzi affair emerged, have had to postpone or cancel deals.

One US bank said: "A lot of Italian stuff has been shelved or put on hold for the moment. This is not the right time to bring out an Italian deal as we would have a lot of trouble getting it away."

For example, Banca Commerciale Italiana was awarded the mandate to arrange an Ecu200m 10-year loan for Autostrada. BCI claims that the deal never went ahead because Autostrada did not like the pricing: other bankers claim that the deal was in the pipeline at the time of the Federconsorzi scandal, and suggest that it would never have found any willing participants.

Other Italian state agencies such as ENEL, the state electricity utility, and Ente Ferrovie dello Stato, the state railway, are frequent users of the international capital markets. Bankers point out that both have a heavy investment programme, and attribute their absence from the markets to the Federconsorzi affair. Pessimists believe it could be a year before Italian borrowers become popular again.

■ Grand Metropolitan, the UK leisure group, has raised about $3bn for its recently announced four-year facility. Originally, it aimed to raise $2.5bn to replace a $6bn standby facility taken out three years ago when it took over Pillsbury. While initially it looked as though GrandMet might find it difficult to raise the money, the loan was oversubscribed, with banks from the US, Japan and Europe participating.

Sara Webb

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,158.0	370.1	29.0	12,338.3
Prev	1,773.0	214.3	300.8	16,350.8
Other	2,505.3	54.2	959.3	5,853.2
Prev	3,610.2	351.2	151.8	8,816.5
Secondary Market				
US$	22,093.1	1,708.8	30,530.1	11,807.9
Prev	22,135.3	1,047.4	7,661.8	9,417.5
Other	37,640.4	995.2	4,362.7	55,835.8
Prev	33,806.8	2,490.7	3,838.6	61,589.5

	Cedel	Euroclear	Total
US$	23,783.5	36,251.8	60,035.3
Prev	18,204.2	40,696.7	58,900.9
Other	46,267.3	61,938.8	108,206.1
Prev	47,234.5	67,420.8	114,655.3

Week to July 4, 1991

Source: AIBD

INTERNATIONAL BONDS

Balance of power shifts in favour of leading firms

WHILE new issue activity in the international bond market was buoyant during the first half of the year, many Eurobond houses fear the spoils are being spread among fewer firms.

One of the most common themes heard was that the market is facing a "cartelisation", with the big players colluding to defend profits at the expense of smaller firms.

An analysis of the figures from the first six months does suggest a significant shift in the balance of power in favour of the top few firms. In the first half, the top five Eurobond houses took 37.5 per cent of all fixed and floating-rate bond issuance by value – excluding equity-linked transactions.

For the whole of last year, the market share of the top five was just 27 per cent. In 1989, their share was 29 per cent and in 1988 it was 32 per cent. It remains to be seen whether this pattern can be extended into the second half of the year or beyond.

However, a number of smaller firms – particularly those whose business is oriented towards retail investors – are convinced that the co-ordinated efforts of the big firms to defend profitability are squeezing them out.

The Eurobond industry has certainly achieved some structural changes which leave it better positioned to profit when new issue activity is strong. In particular, there has been a concerted effort to restore commissions through both agreed fee structures and the use of the fixed price re-offer method.

The big firms admit there are informally agreed norms on the correct level of fees for different types of transaction, and that they will not participate in deals which do not conform. Equally, they will not participate in deals where the method of syndication is not to their liking.

The fixed-price re-offer was first introduced into the Eurobond market in 1989. The lead manager as usual fixes the price at which the syndicate owns the bonds (the issue price less the fees paid by the issuer), but also sets a price at which bonds must be sold on (or re-offered) to investors.

Only once the lead manager thinks most of the bonds have been placed firmly in the hands of end investors is the syndicate is "broken" and the bonds are free to find a trading price.

The practice is designed to stop participants in the deal from selling bonds back to the lead manager at a discount if they cannot find other buyers. Such discounting depressed the price of new issues and eroded the fees earned by the underwriters, since bonds were being sold at or below the price at which the syndicate owned the bonds.

Moreover, discounting also drove many institutional investors from the primary Eurobond market. Institutions preferred to wait for a bond issue to fall in price before committing funds.

The fixed-price re-offer mechanism was primarily, then, a method of safeguarding the profitability of Eurobond houses dependent on the business of institutional investors.

Some firms argue it is inappropriate in currency sectors dominated by retail investors. Retail investors are often less sensitive to the subtleties of Eurobond pricing than large institutions. Hence retail-based firms can still sell bonds to a large number of private investors at issue price. They are geared towards this more labour-intensive but higher-margin business.

They say that the fixed-price re-offer is being forced upon them by the bigger firms. The method has certainly been extended into new areas of the market – such as the Eurolire and Australian dollar sectors – which have been historically dominated by the retail investor.

However, this still falls short of showing that a cartel is in operation. Competition for new issue mandates is intense and deals are still mispriced by even the biggest firms. There are also rumours, more persistent than usual, of currency and interest rate swaps being subsidised for borrowers in order to win mandates.

If there is a cartel in the early stages of development, it looks unlikely to reach maturity.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Ryosan Co.(a)♦†	100	1995	4	4	100	Daiwa Europe	4.000
Tokyo Electron♦	300	1995	4	4	100	Nomura Int.	4.000
Mitsubishi Oil Co.♦†	150	1995	4	4	100	Nikko Secs.	4.000
Japan Steel Works♦	150	1995	4	4	100	Nomura Int.	4.000
Keiyo Co.♦	100	1995	4	4	100	Yamaichi Int.	4.000
Toshiba Eng.& Constr.♦	100	1996	5	5	100	Nomura Int.	5.000
Sumitomo Rubber Ind.♦	100	1996	5	5	100	Daiwa Europe	5.000
Teijin Seiki Co.♦	100	1996	5	5	100	Daiwa Europe	5.000
Naigai Co.♦	100	1995	4	4	100	Nikko Secs.	4.000
Isvelmer(o)‡†	150	1994	3	(o)	99.95	JP Morgan Secs.	-
Nakayama Steel Works♦	120	1996	5	5	100	Nomura Int.	5.000
Sankyo Aluminium(n)♦†	200	1995	4	4	100	Daiwa Europe	4.000
Takashimaya Co.(u)♦†	270	1996	5	5	100	Nomura Int.	5.000
Daido Steel(v)♦†	220	1996	5	5	100	Nikko Secs.	5.000
Toa Steel(v)♦†	160	1996	5	5	100	Nomura Int.	5.000
STERLING							
African Devt.Bank†	100	2001	10	11¼	99.63	Baring Bros.	11.314
AMP (UK)†	100	2001	10	11½	99.32	CSFB	11.618
ECUs							
Petroleos Mexicanos†	100	1994	3	11½	100.05	Paribas Cap.Mkts.	11.479
EIB(p)‡†	400	2001	10	(p)	100	Credito Italiano	-
CANADIAN DOLLARS							
Oesterreichische K'bk(k)†	100	1994	3	10	101.175	IBJ Int.	9.532
Vancouver City Savings†	100	1996	5	10¾	101.55	Hambros Bank	10.338
Eurofima†	225	2001	10	10¾	101.67	CSFB	10.472
AUSTRALIAN DOLLARS							
Australian Trade Comm.†	50	1995	4	11⅝	101.80	Fay Richwhite (UK)	11.044
D-MARKS							
Mitsubishi Oil Co.♦†	250	1995	4	4¼	100	Yamaichi Bk GmbH	4.250
Daiken Corp♦†	150	1995	4	4¼	100	Daiwa Europe GmbH	4.250
JF Carib Aec†	52.2	1995	4	8½	101¾	Mitsubishi Bk GmbH	7.972
Sankyo Aluminium(w)♦†	120	1995	4	4	100	Daiwa Europe GmbH	4.000
Ohtsu Tire & Rubber(x)♦†	75	1995	4	4	100	Nomura Bk GmbH	4.000
SWISS FRANCS							
Meisei Industries(b)★★♦†	50	1996	-	2¾	100	Coutts and Co.AG	2.750
Mikasa Coca-Cola(d)★★♦†	45	1996	-	2¾	100	Credit Suisse	2.750
Stamina Foods Inc.(c)★★§†	35	1995	-	4	100	Coutts and Co.AG	4.000
San-ai Oil Co.(g)★★§	100	1995	-	4	100	Credit Suisse	3.997
JAMCO Corp(h)★★§	80	1995	-	5	100	New Japan Secs.(Switz)	4.995
Nishio Rent All Co.(i)★★§	55	1995	-	4	100	UBS	3.995
Banque Leu (Lux.)(j)†	(j)	1992	-	(j)	100	Bank Leu	-
Tenmaya Store Co.(f)★★♦†	50	1995	-	2½	100	Nomura Bk (Switz)	2.500
Shizuki Electric Co.(l)★★♦†	60	1996	-	2¾	100	Coutts and Co.AG	2.750
Nippon Yusoki Co.(m)★★§†	50	1996	-	4⅞	100	Nikko Bk (Switz)	4.869
Tokyo Tekko(r)★★♦†	140	1996	-	3	100	Credit Suisse	3.000
Pacific Metals Co.★★♦	120	1996	-	3	100	SBC	3.000
Advantest Corp(s)★★♦	100	1995	-	2⅞	100	Credit Suisse	2.875
Nippon Densan Corp★★♦	60	1995	-	2⅝	100	Daiwa Secs.(Switz)	2.625
Synx Corp★★†	30	1996	-	7¼	100	Dai-Ichi Kgo.Bk	7.250
Funai Consulting(t)★★§	60	1995	-	4	100	SBC	3.999
Takashimaya Co.(y)★★♦†	100	1998	-	3½	100	UBS	3.500
Harima Chemicals(y)★★♦†	50	1995	-	2½	100	Daiwa (Switz)	2.500
Matsumoto Key.Corp.(z)★★§†	50	1995	-	4	100	SBC	3.997
ESCUDOS							
EIB(q)†	20bn	1998	5	13	101¾	Bco.Portugues d'Inv.	12.508
SWEDISH KRONOR							
Dresdner Finance BV†	400	1995	4	11	101⅝	Dresdner Bank	10.482
LIRE							
European Coal & Steel†	340bn	1996	5	11⅛	101½	Bca.Comm.Italiana	10.722
A/S Eksportfinans†	150bn	1996	5	12¼	101.67	Bca.Naz.d'Lavoro	11.788
FINNISH MARKKA							
Banque Indosuez†	200	1996	5	11½	101.575	Deutsche Bk Cap.Mkts.	11.073
YEN							
Taisei Holland BV†	10bn	1998	7	7½	101.70	Yamaichi Int.	7.183
LUXEMBOURG FRANCS							
Kredietbk.Int.Fin.NV(e)†	2bn	1999	8	9⅛	102	KBL	8.767
Cregem Finance NV★★†	1bn	1998	6⅓	9¼	101.70	Cregem Int.	8.869
Okobank†	600	1996	5	9⅜	101⅝	BIL	8.958
Accor SA★★†	750	1994	3	9½	101.65	BGL	8.850
Total SA★★†	600	1998	5.167	9¼	101¾	Banque Paribas (Lux.)	8.800
Banque Indosuez★★†	1bn	1998	7	9¼	101½	Banque Indosuez	8.952
Cerabank(Lux)★★†	500	1995	4	9⅜	101⅞	Cerabank	8.799

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. ♠Variable rate notes. †Final terms. a) Exercise premium fixed at 2.51%. Non-callable. b) Callable 18/7/92 at 102% declining ¼% semi-annually. Exercise premium fixed at 2.5%. c) Put option 28/2/94 at 107% to yield 6.53%. Conversion premium fixed at 2.89%. d) Callable 11/7/94 at 101% declining ½% annually. Exercise premium fixed at 2.5%. e) Amount increased from LFr1.75bn. Non-callable. f) Callable 18/7/93 at 102% declining ½% semi-annually. Exercise premium fixed at 2.52%. g) Put option 31/3/94 at 105⅞% to yield 6.073%. h) Full name of borrower - New Japan Aircraft Maintenance Co. Non-callable. i) Put option 31/3/94 at 107¼% to yield 6.516%. j) Amount, up to SFr50m. Issue linked to Standard & Poor's 500 Share Index. Guaranteed minimum coupon of 4%. k) Fungible with existing C$150m deal. Non-callable. l) Callable 23/7/92 at 102% declining ¼% semi-annually. Exercise premium fixed at 2.55%. m) Callable 30/9/93 at 102½% declining ½% semi-annually. Exercise premium fixed at 2.57%. n) Exercise premium fixed at 2.56%. Non-callable. o) Issue launched on fiduciary basis via Kredietbank Lux.. Coupon pays ⅜% over 6-month Libor. Non-callable. p) Coupon pays 6-month minus 25bp. Callable at par after 2 years and thereafter. q) Callable 24/7/95 at 100½%. r) Callable 18/7/93 at 101½% declining ½% annually. s) Callable 25/7/93 at 101¼% declining ¼% semi-annually. t) Put option 30/6/94 at 108¾% to yield 6.136%. Coupon payable semi-annually. u) Exercise premium fixed at 2.55%. v) Exercise premium fixed at 2.62%. w) Exercise premium fixed at 2.56%. x) Exercise premium fixed at 2.59%. y) Exercise premium fixed at 2.5%. z) Conversion premium fixed at 2.5%. Note: Yields are calculated on AIBD basis.

UK GILTS

Mood better as yield spreads narrow

AT LONG last, gilt practitioners have something to smile about, after the best week for the gilt market since November.

Prices rose by 2 points for long-dated securities, with an increase of about half a point for short-dated bonds, as gilt trading took on a new lease of life after several months in the doldrums.

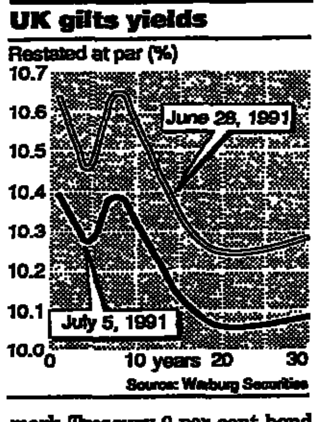
Several factors were behind the better conditions for gilts, one of them being a substantial increase in the volume of interest in the securities by overseas investors. In recent weeks, gilts have performed badly compared with French and German government bonds. Last week, however, the inevitable correction set in, with investors realising that the prices of UK government bonds had fallen to a level where they were good value for money.

At the beginning of the week, the difference in yields between 10-year UK and French bonds was 180 basis points. By the end, the difference had narrowed dramatically to 140 basis points.

The improved performance was evident at all points along the yield curve. On Friday night, the yield on the benchmark Treasury 9 per cent bond maturing in 2008 was being quoted at below the crucial 10 per cent mark, at 9.97 per cent, a drop of 25 basis points on the week. The price of these bonds climbed during the week by nearly 2 points, to 92.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

The yield for the shorter-dated 10 per cent Treasury bond, maturing in 2004, also fell, to 10.2 per cent.

Gilts were helped by recent indications that the UK recession will be longer and deeper than previously thought. Details emerged last week of the bleak state of two important UK industrial sectors – cars and housebuilding – while economic forecasters have become markedly more pessimistic about conditions over the rest of the year.

Many economists hoped a few months ago that a muted recovery would have started by about now, but few now believe that an upturn is imminent.

The consensus is that consumer spending and industrial investment will continue to be extremely weak until the autumn. The length and depth of the recession have killed suggestions that inflation will be much of a worry next year – even though influential opinion at the Bank of England remains that Britain has some way to go before having to cease worrying about this topic. In this climate, bond yields at the long end of the yield curve may well decrease for several more weeks.

Meanwhile, many in the gilt market are looking for a further cut in base rates, now at 11.5 per cent, on Friday – when the government is expected to announce that the annual rate of rise in the retail prices index, 5.8 per cent in May, fell to about 5.6 per cent last month.

Another factor has been an improved political climate for the government, which is still trailing behind Labour in the opinion polls, although not by such a margin as was evident a few weeks ago. Many in the gilt market consider the prospect of a Labour victory a cause for alarm, partly because of the fear that this could kick off a greatly expanded programme in issuing gilts to pay for increased public spending.

Turning to the nearer term, the possibility that the Conservative government will issue gilts this financial year worth as much as £15bn, with a consequent depressing effect on yields, has now become part of the background noise in the market and is ceasing to give traders nightmares.

Gilt dealers can even look forward to a meeting this Thursday when the Bank has asked them for their views on how future gilt auctions should be conducted. This has been interpreted as underlining the interest by Threadneedle Street in listening to market-makers on some of the technical points to gilt issues – another reason why many in the gilt market were in a happy frame of mind last week.

Peter Marsh

US MONEY AND CREDIT

Recovery fears depress Treasuries

THE QUESTION now vexing the US credit markets is not whether the American economy is recovering, but how strong that recovery will be. Fears of a vigorous rebound were underlined on Friday when long Treasury bond prices fell sharply.

The drop, which knocked more than three quarters of a point off the benchmark 30-year issue and sent its yield up to almost 8.5 per cent, followed the release of the June employment report. This presented a mixed picture. On the one hand, the unemployment rate rose from 6.9 per cent to 7 per cent during the month, and non-farm payroll employment fell by 50,000, whereas many had been expecting an increase.

On the other hand, the statisticians revised May's data to show a 119,000 increase in employment, rather than the 59,000 reported before. But what really unnerved the market were figures showing gains in both hours worked and wages paid.

The longer work week is typical of an economy in the early stages of a recovery: businesses are uncertain of the strength of an upturn and work their existing labour harder, rather than hiring new workers.

Of rather more concern was the jump of \$0.06 in average hourly earnings, which came on top of \$0.04 rises in each of the previous three months. The year-on-year increase in earnings is still pretty small – 3.6 per cent – but the slight upward trend is hardly reassuring to a bond market which lacks confidence that inflation is on a downward path.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.75	8.00	5.63	11.00	2.00
Three-month Treasury bills	5.73	5.70	5.72	7.81	5.53
Six-month Treasury bills	5.96	5.91	5.99	7.75	5.82
Three-month prime CDs	6.00	6.08	6.14	9.01	5.86
30-day Commercial Paper	6.00	6.00	6.00	9.95	5.80
90-day Commercial Paper	6.05	6.03	6.03	10.05	5.81

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98.1	-1.2	8.21	8.10	8.16
20-year Treasury	107¼	[illegible]	8.47	8.41	8.48
30-year Treasury	96	[illegible]	8.49	8.40	8.47

Source: Salomon Bros (estimates).

Money supply: In the week ended June24, M1 fell by \$1.9bn to \$858.6bn.

The market's reaction to Friday's figures may have been exaggerated by the fact that this was a quiet day, in the middle of the July 4 holiday weekend, and there was concern about the weight of government paper due to hit the market in coming weeks.

However, the employment figures reinforced the brighter economic picture displayed throughout the week by other statistics. The National Association of Purchasing Managers issued its June index, showing a jump to 50.9 per cent in June from 45.4 per cent in May. A reading over 50 per cent is generally regarded as a sign that the economy is expanding, and this was the first such figure since May last year.

Vehicle sales in the final 10 days of June ran at an annual, seasonally-adjusted rate of 7.4m units, stronger than anticipated and the highest selling rate this year. The strengthening of motor industry sales will be reflected in one of the main statistical series of the coming week – Friday's release of June retail sales figures.

The market will also focus on the June figures for producer prices, where analysts are expecting a zero to 0.2 per cent rise in the core inflation rate, down from May's 0.4 per cent, which was affected by several special factors. A zero reading would mean a year-on-year rise of 3.4 per cent, the lowest in three years.

The history of recent recessions is that inflation tends to continue falling after recovery has begun. However, the market has doubts about that argument, given that inflation has proved more difficult to break during this recession.

The market has now all but ruled out any prospect of further easing by the Federal Reserve, unless the recovery peters out and the economy slips into recession. The economic consensus is that a so-called "double dip" recession is increasingly unlikely, although the recovery will remain weak, due to a lack of consumer spending power, continuing strains in the financial system, and sharp cuts in state and local spending this autumn.

If this proves the case, the key question for the bond market is the extent to which the Fed can engineer a non-inflationary "soft take-off". However, unless inflation continues to moderate, that might imply some tightening of monetary policy near the end of the year.

The Fed's open market committee, its main policy-making arm, met last week and is thought to have decided against any change in current monetary conditions, leaving the Fed funds rate at around 5¾ per cent. Attention is now starting to focus on July 16, when Mr Alan Greenspan, the Fed chairman, will make his half-yearly presentation to Congress, for this will give a strong indication of how the central bank sees the recovery shaping up and the implications of this for credit conditions.

Martin Dickson

GERMAN BONDS

Clampdown on tax fiddles frays nerves

IS THE German tendency to save based on a tax fiddle?

With households currently saving around 16.7 per cent of disposable income, private investors have this year again been financing a large part of unification. According to figures from BHF Bank in Frankfurt, only 6.5 per cent of the DM86bn of domestic fixed-income securities sold in the first four months of this year found their way abroad, as foreigners, largely deterred by the weak D-Mark, held off.

Now, out of the grievances of a Freiburg civil servant – angry at how little investment income tax he observed people declaring – and the legal process he set in motion, it emerges that half the country does not declare its investment income. The case he brought, which ended in the constitutional court, has put the government on the spot.

The ruling – that the voluntary declaration of investment income is unconstitutional – may be a brilliant legal decision. However the finance ministry, struggling though an historically onerous funding operation, hardly has the luxury of choosing between fairness in the tax system and the risk of capital flight.

Bund and equity prices fell immediately on the court decision and, last week, the bund market underperformed French bonds and gilts with some suggestion that holders – including central banks – were already beginning to switch. Euro D-Mark bonds also improved a few basis points against bunds, and the prices of Pfandbriefe (mortgage bonds) and Schuldscheine (promissory notes) suffered.

The government – whose credibility on forecasting upcoming tax measures is not high – has attempted to banish the ghost of a withholding tax, after the massive capital flight induced by the half-year experiment in 1989.

Other measures, such as random checks or a mandatory bank reporting system to the authorities, chip away at banking secrecy provisions.

Bundesbank figures show investment income tax amounting to DM10.9bn in 1990. Hence, if the constitutional court is right that about half is not being declared, the sums are such that efforts to collect the shortfall would almost certainly prove a net drain on the central coffers (largely because of higher yields demanded by investors trying to preserve after-tax returns).

The government is unlikely to come up with an answer before the summer recess, and with the possibility that the solution will have to wait for an EC-wide compromise, the bund market is left with what it likes least – uncertainty.

Meanwhile, attention this week will be focused on Thursday's Bundesbank council meeting, the last before the summer recess. There is a good deal of nervousness in the market – with the Euro D-Mark September three-month interest-rate futures contract priced at around 9.3 per cent, discounting a slight tightening above the current 9 per cent Lombard rate.

However, despite the dogged persistence of the dollar – quoted at midday on Friday in Frankfurt at another 18-month high of DM1.84 – most observers believe the central bank is likely to keep its powder dry for a while. By August, it will have another month's inflation figures to gauge the effect of generous wage increases, a weak currency and higher taxes.

Katherine Campbell

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	101½	-⅛	7.84
ABN 9 1/8 94	200	101⅝	-⅛	8.49
AETNA LIFE & CAS 7 3/4 16	200	99⅝	-⅛	7.78
ALBERTA PROVINCE 8 5/8 96	750	100¼	-⅛	8.57
ALBERTA PROVINCE 9 3/8 95	600	103⅛		8.46
AMERICAN EXPRESS 0 00	450	42	-⅛	9.63
AMERICAN GENERAL 9 3/4 95	100	100¼	+⅛	9.71
ANHEUSER-BUSCH 9 1/8 92	100	101⅞		7.70
[illegible]				
SAS 10 99	200	99½		10.10
SAS 10 1/8 95	150	102	+⅛	9.52

	Issued	Bid price	Chg on week	Yield
SASKATCHEWAN 15 92	150	107¼	-⅛	7.76
SBAB 9 1/2 95	500	103⅝	-⅛	8.44
SEAGRAM CO 8 1/2 96	100	97¼		9.25
SEARS O/S FIN 0 98	500	51½		10.03
SEARS O/S FIN 11 5/8 93	150	105⅝	-⅛	8.87
SKANDIA INTL 7 1/4 92	200	99⅞	+⅛	7.36
SNCF 7 1/4 94	175	99	-⅛	7.67
SNCF 9 1/2 98	150	103⅜		8.78
STATE BK STH AUST 9 1/4 93	100	101⅞		7.90
[illegible]				
WORLD BANK 5 3/4 96	300	88¼	-⅛	8.76
WORLD BANK 7 1/8 95	500	96¼	-⅛	8.33

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	94	-1	6.55
AUSTRIA 4 5/8 98	100	90½	+⅛	6.43
CHUJITSUYA 7 3/4 95	50	101	-⅛	7.45
COUNCIL EUROPE 4 3/4 98	250	89¼	-⅛	6.62
EEC 5 1/2 00	100	91½	-⅛	6.74
EIB 5 3/4 93	100	97½	-⅛	6.94
ELEC DE FRANCE 7 1/4 06	100	104½		6.75
FINLAND 5 3/8 95	150	96		6.46
[illegible]				
TOYOTA MOTOR		153	+⅛	4.73
UNITIKA		11	-⅛	46.20
YAMANOUCHI PHARM		⅞		32.47

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on July 5

THE WEEK AHEAD

ECONOMICS

Speculation heightens on interest rate increase from Bundesbank

THERE is gathering speculation this week that Thursday's Bundesbank meeting – the valedictory one for Mr Karl-Otto Pöhl, president – will order an interest rate rise to welcome in Mr Helmut Schlesinger, who takes over from Mr Pöhl on July 31.

Some signal on German rates is expected in the wake of poor inflation data and a weakening D-Mark, and to give the markets something to chew on over the summer holidays.

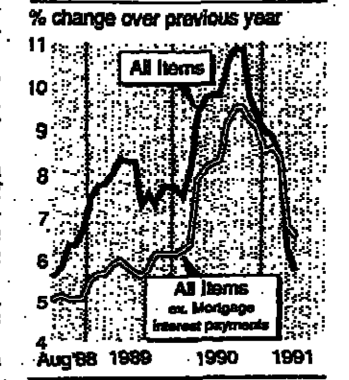
The bank could embark on a two-stage tightening. Analysts are speculating whether there will be a ½ per cent rise in the discount rate to 7 per cent this Thursday, followed by a similar Lombard rate hike should German inflation in the autumn stay at or above 4 per cent.

If there is no Bundesbank rate rise, then the UK looks on course for a continuation in its series of rate cuts – though the markets were disappointed no to receive one last Friday when the pound was strong.

Inflation and the pound, the two key determinants of interest rate cuts, will be very much in focus this week. Though the authorities have firmly tried to separate base rate cuts with release of the retail prices index, and break the one-cut-a-month psychology, further evidence of weakening inflation coupled with a strong pound could prove an irresistible opportunity to cut. As the election approaches, sterling could find itself under renewed downwards pressure – so the feeling is now that the authorities should cut when the markets allow.

RPI

% change over previous year



However, the inflation picture may not be especially bright. Producer prices indices should reflect, on the input side, that fuel and industrial commodity prices have been unchanged on the month, while food prices have risen 1 per cent in dollar terms.

Analysts are expecting a weaker pound to push annual input prices up to a 1.4 per cent rise in June, while output prices should stick at 6 per cent in spite of the low price rise expectations disclosed in industrial surveys. Food and drink inflation is higher than elsewhere, however, and wage cost pressures remain intense. The annual rise in the RPI is expected to be just 5.6 per cent, from 5.8 per cent in May.

Other notable events and statistics, with median forecasts from MMS international, the finance research company, in brackets include:-

Today: UK, final retail sales (down 0.3 per cent), credit business for May (£50m). US, consumer credit for May ($1.5bn). Germany, May retail sales (6 per cent).

Tuesday: UK, producer input (1.4 per cent) and output prices for June (6 per cent). Canada, housing starts for June (150,000).

Wednesday: US, May wholesale trade.

Thursday: Germany, Bundesbank meeting. Japan, trade balance for June ($8bn). Australia, June employment (down 15,000). US, initial unemployment claims, money supply. Canada, motor vehicle sales.

Friday: UK, retail prices index for June (5.6 per cent) ex-mips (6.6 per cent). US, producer price index for June (0.1 per cent), excluding food and energy (0.2 per cent), retail sales for June (0.5 per cent), ex auto (0.4 per cent), business inventories for May. Japan, wholesale price index (0.7 per cent). Spain, consumer prices index for June.

During the week: Germany, industrial production for May, current account for May, trade balance for May, final cost of living for May (annual 3.5 per cent), wholesale price index (monthly 0.4 per cent). Japan, machinery orders. Australia, broad money and credit growth, July consumer sentiment.

Rachel Johnson

RESULTS DUE

THE electrical retailer Dixons is expected to have limited the damage of the high street spending squeeze to a 10 per cent fall in pre-tax profit. About £72m is forecast for the year to the end of April, down from £80.1m. The results are due out on Wednesday.

Difficult trading conditions were eased by increased sales ahead of the VAT rise and by enhanced profitability from Currys out-of-town stores. One of the key questions will be about the trend in sales of goods to replace ageing televisions or white goods.

The Rank Organisation leisure group is expected on Thursday to report pre-tax profits for the six months to May of around £105m (down from a comparable £137.6m). The effects of the Gulf War and the recession were partly offset by last year's acquisition of Mecca.

The last two regional electricity companies, Manweb and South Wales Electricity, report on Wednesday. They are expected to turn in profits of £62m and £50m and dividends of 11.20p and 11.13p respectively. Like the distributors reporting before them, they are likely to produce much healthier profits than forecast in their flotation prospectuses last autumn.

Interest focuses on South Wales Electricity because of the 14.9 per cent stake taken in it by Welsh Water.

Among other companies reporting, Christie's, the auctioneers, is due to release its results on Friday.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
East Surrey Water, London Road, Redhill, 12.30
Ratners, Savoy Hotel, Strand, W.C., 12.00
Value & Income Trust, 45, Charlotte Square, Edinburgh, 12.15
Walker Greenbank, Savoy Hotel, Strand, W.C., 10.30
Whitbread Inv., Brewers Hall, Aldermanbury Square, E.C., 12.30
BOARD MEETINGS:
Finals:
Carclo Eng.
Creightons Naturally
Daejan
Mosaic Invs.
Reliance Security

■ TOMORROW
COMPANY MEETINGS:
Borthwicks, Stationers' Hall, Ave Maria Lane, E.C., 12 00
Chesterfield Properties, 38, Curzon Street, W., 11.30
Henderson Admin., 3, Finsbury Avenue, E.C., 12.30
M & G Second Dual Trust, Three Quays, Tower Hill, E.C., 12.30
Worth Inv. Trust, 99, Charterhouse Street, E.C., 11.00
Young & Co's Brewery, Grosvenor House Hotel, Park Lane, W., 1.00
BOARD MEETINGS:
Finals:
Bogod
Bucknall
Colefax & Fowler
Howden
Real Time Control
Interims:
Invicta Sound
Low & Bonar

■ WEDNESDAY JULY 10
COMPANY MEETINGS:
Atkins Bros. (Hosiery), Old Cottages, Lower Bond Street, Hinckley, 10.00
Brown (N), Ramada Renaissance Hotel, Manchester, 2.30
Marks & Spencer, Grosvenor House Hotel, Park Lane, W., 11.30
BOARD MEETINGS:
Finals:
Alan Paul
Cabra Estates
Dixons
Harris (Philip)
Manweb
South Wales Elect.
Stewart & Wight
Tops Estates
Total Systems
Wyko
Interims:
EWD Sec.
Cardiff Prop.
Cityvision
Domino Printing Sciences
Leslie Wise
M & G Dual Trust
Torex Hire

■ THURSDAY JULY 11
COMPANY MEETINGS:
Ferguson Intl., Watermen's Hall, 18, St. Mary-at-Hill, E.C., 12.00
Gartmore Value Invs., Gartmore House, 16-18, Monument Street, E.C., 10.00
Parkland Textile, Post House Hotel, Bramhope, Leeds, 11.30
Storehouse, Royal Lancaster Hotel, Lancaster Terrace, W., 11.30
BOARD MEETINGS:
Finals:
ASDA
Cray Elects.
Greene King
LEICA
Morris Ashby
Park Foods
Symonds Eng.
Interims:
Fleming American Inv. Trust
Rank Org.

■ FRIDAY JULY 12
COMPANY MEETINGS:
British Land, Mayfair Hotel, Stratton Street, W., 12.00
Tie Rack, Novotel, Hammersnith Intl. Centre, W., 10.30
BOARD MEETINGS:
Finals:
BB & EA
Christie Group
Pepe
Verson Intl.
Interims:
Abbey Panels Invs.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey Natl. Fltg. Rate Nts. 1993 £304.79
Albert Fisher 1.75p
Anglovaal 62cts.
Do. N 62cts.
British Assets Tst. 1p
Clarkson (Horace) 5.25p
European Leisure 0.5p
Inch Kenneth Kajang 4p
Inter-American Dev. Bk. 12½% Ln. 2003 6¼pc.
Jackson Grp. 2.2p
Japan Dev. Bk. 12⅓% Gtd. Nts. 1995 6$\frac{1}{16}$pc.
MMT Computing 1p
Met. Est. & Prop. Fltg. Rate Gtd. Nts. 1995 Y408.394
Morgan Crucible 7.5% Cv. Cm. Rd. Pf. 3.75p
Do. 9½% Db. 1995/2000 4¾pc.
NFC Var/Vtg. 1.2p
Oriel 3p
Radio Clyde 3.25p
Reckitt & Colman 21.75p
River & Merc. Tst. Inc. 1.6p
Sec. Pacific Sub. Fltg. Rate Nts. 1992 $167.47
Tarmac 8.25p

■ TOMORROW
ADT 3.2cts.
Bradford & Bingley Building Society Fltg. Rate Nts. 1998 £303.85
EIS 8.375p
Gold & Base Metal Mines 0.5p
Morgan (JB) 13% Nts. 1993 6½pc.
New Zealand Inv. Tst. 0.75p
Reed Publishing (USA) 9⅝% Gtd. Bds. 1997 4$\frac{13}{16}$pc.
Standard Chartered Und. Prim. Cap. Fltg. Rate Nts. $54.36
Do. (Ser.4) $387.77
Union Bk. of Finland Var. Rate Sub. Nts. 2000 $172.20
Value & Inc. Tst. 1.35p
Young & Co's Brewery A 7p
Do. N/Vtg. 7p
Do. 3½% Irrd. Mtg. Db. 1¾pc.

■ WEDNESDAY JULY 10
Apollo Metals 1.15p
Do. 8p Cm. Cv. Rd. Pf. 4p
Bradford & Bingley Building Society Fltg. Rate Nts. 1997 £301.17
Chesterfield Props. 11.5p
Govett Atlantic Inv. Tst. 1.2p
Halifax Building Society Fltg. Rate Ln. Nts. 1992 £150.37
Hewlett-Packard 12.5cts.
Mezzanine Cap. & Inc. Tst. 2001 Inc. 7.5p
Morris (Philip) 43cts.
Nationwide Anglia Building Society Fltg. Rate Nts. 1995 £150.37
Shani 1.6p
Siam Selective Growth Tst. 1p
Worth Inv. Tst. 0.36p

■ THURSDAY JULY 11
Allied Irish Banks 4.25p
Bank of Ireland Cap. 7p
Berry Birch & Noble 1.5p
CNA Gallo 54cts.
Commonwealth Bk. of Aust. Und FRN (Exch into Dated FRN) $384.63
HK & Shanghai Banking Prim. Cap. Und. FRN 3rd Ser. £79.78
Walker Greenbank 1.9p

■ FRIDAY JULY 12
BZW Conv. Inv. Tst. 1.5p
Blue Circle 7.5p
Brixton Estate 4.55p
Burmah Castrol 14.5p
Cahill May Roberts 0.7p
Caisse Centrale De Cooperation Econ. 12¼% Gtd. Ln. 2013 (Br) 6⅛pc.
Do. (Reg) 6⅛pc.
Conversion 9½% Ln. 2001 4¾pc.
Conversion 9% Ln. 2011 4½pc.
First Iberian Fd. 6cts.
Greenall Whitley Lim/Vtg. 4.4p
Do. A 0.88p
Greyfriars Inv. 2p
Jarvis 1.175p
Kelsey Inds. 8p
Nat. Australia Bk. 22cts.
Quicks 1p
Ralston Inv. Tst. 1.275p
RHM 3.82p
Ritz Design 3.2p
Sheafbank Prop. Tst. 0.1p
Tiger Oats 25cts.
Warner Estate 3.25p

■ SUNDAY JULY 14
Funding 3½% 1999/2004 1¾pc.
SmithKline Beecham/Beckman Equity Units 43.09cts.
Treasury 13% 2000 6½pc.

PARLIAMENTARY DIARY

■ TODAY
Commons: Road Traffic Bill, Lords Amendments.
Debate on Computer Services for MPs.
Lords: Local Government Finance and Valuation Bill, Committee.
Human Fertilisation and Embryology regulations.
Access to Personal Files regulations.
Motor Vehicles (International Circulation Order.

■ TOMORROW
Commons: Opposition Debate on Low Income and the Quality of Life.
Arms Controls and Disarmament (Inspections) Bill, further proceedings.
Debate on plans to establish a Select Committee on sittings of the House of Commons.
Opposed Private Business from 7.0pm.
Lords: Export and Investment Guarantees Bill, Committee.
Committee on an Opposed Private Bill: London Docklands Railway (Lewisham etc.) Bill. (Room 6, 10.0am).

■ WEDNESDAY
Commons: Motion on the Northern Ireland (Emergency Provisions) Regulations and the Appropriation (No 2) Northern Ireland Order.
Lords: Dangerous Dogs Bill, Committee.
Select Committees: Defence – subject, Estimates 1991. Witness: Secretary of State for Defence Tom King (Room 15, 9.0am).
Defence – subject, Procurement of Advance Short and Mediumrange Air To Air Missiles. Witnesses: MoD officials (Room 15, 4.15pm).
Employment – subject, Employment in Prisons and for Ex-Offenders. Witnesses: Association of Chief Officers of Probation; Home Officials (Room 20, 4.15pm).
Health – subject, Maternity Services. Witnesses: Royal College of General Practitioners; National Childbirth Trust (Room 8, 4.15pm).
Committee on Opposed Private Bill: London Docklands Railway (Lewisham etc.) Bill (Room 6, 10.0am).

■ THURSDAY
Commons: Proceedings on the British Railways Board (Finance) Bill.
Lords: Ports Bill, Report. Atomic Weapons Establishment Bill, Report.
Committee on Opposed Private Bill: London Docklands Railway (Lewisham, etc) Bill (Room 6, 10.0am).

■ FRIDAY
Commons: Debate on the UK Environment.
Lords: London Underground Bill, second reading.
Motion on the Criminal Justice (Northern Ireland) Order and on the Northern Ireland (Emergency Provisions) Regulations.
Question to Government on the future of Saint Mark's Hospital, London.
Education (Student Loans) regulations.
Education (Information on School Examination Results

CONSTRUCTION CONTRACTS

£49m batch for Lilley

LILLEY has won orders worth £49m. Henry Jones, the south of England building arm, has received £9.8m, including a £2.4m award for the redevelopment of the BUPA hospital in Brentwood and a £1.6m order for the construction of a sports hall for St John's College in Portsmouth.

Lilley's south of England operations have won contracts worth £15.5m. Heading the list is a £5.5m renovation and new build contract for single and family apartments in Nottingham awarded to the Standen Group.

The Scottish and north of England operations have won contracts totalling £23.7m, including MDW's £4.1m award for the construction of an obstetrics unit for Law Hospital in Lanarkshire.

Mapping facility

CEMENTATION (MAJOR PROJECTS), a member of the construction division of Trafalgar House, has been awarded a £30m plus design and construct contract by the Ministry of Defence. The contract is for a 15,000 sq metres, three-storey environmentally controlled mapping facility at Feltham, Middlesex.

Bridge building

Milton Keynes Development Corporation has awarded NORWEST HOLST (southern civil engineering division) a £4.7m contract for three new railway bridges. The bridges are expected to improve road and footpath/cycleway connections, traffic flow and flexibility throughout Milton Keynes.

Spinning shed

The north east division of R M DOUGLAS CONSTRUCTION has secured a package of industrial orders worth £4m. The largest is for a 5,000 sq metres spinning shed and dye house at Ravensthorpe Mill.

Chelmsford project

COSTAIN CONSTRUCTION, a subsidiary of Costain E & C, has been awarded a £14.2m contract by The British Real Estate Group and Folkestone (UK) for the construction of The Meadows - the first major town centre retail shopping development in Chelmsford, Essex for 20 years.

Bounded by the rivers Can and Chelmer, the development comprises the construction of a two and three-storey retail shopping complex with 44 shops and two large units linked by covered malls. In addition, a three-storey office block, multi-storey car park and cinema building with four auditoria, asssociated foyer and other facilities will also be built by Costain Construction.

The contract also allows for all services and other external works including river wall works, footbridges, parking, access roads, river walkways, landscaping and boundary fencing and walls. The contract is due for completion in autumn 1992.

British Gas offices plan

TEAM SERVICES has been awarded a mixture of design and construction management contracts worth £30.7m.

The biggest (£20m) is with British Gas (Scotland) for the design and construction management of a series of high-technology district offices each around 50,000 sq ft.

In Docklands, Team has taken over responsibility for the completion of two office projects at Marsh Wall, both at a standstill since the contractor went into receivership. The £6m construction management commission is a joint venture with quantity surveyors, Jackson Coles, on behalf of Charter Developments.

The remaining contracts (£4.7m) result from the specialist design/build package evolved by Team to provide cost effective student accommodation and are for work at the University of Wales College of Cardiff and S. Martin's College, Lancaster.

Educational facilities

LAING MIDLANDS (Nottingham office) has been awarded two construction contracts in Leicester worth in total more than £14m.

The construction company is building four-storey electrical and mechanical laboratory accommodation for the Leicester School of Engineering and Manufacture (valued at £8.5m) and a six-storey biological research building will be built for the Medical Research Council and the University of Leicester (valued at £6.2m).

The Leicester School of Engineering and Manufacture contract involves "pro-green" design work with natural lighting and ventilation being employed throughout the building.

The project has been the subject of much research and, once completed, the building will be studied as a prototype low energy structure. Construction is scheduled to last 88 weeks.

The biological research building at the University of Leicester will be of in situ concrete frame and slabs with steelwork above. There will also be brick cladding. The contract programme is expected to last 80 weeks.

£9m orders for Tarmac

A large hospital extension is among contracts worth £9m awarded to TARMAC CONSTRUCTION.

The £2.2m three-storey extension at the Nuffield Hospital, in Chandlers Ford, Hants, includes operating theatres and a rehabilitation centre.

A contract for £634,000 for the modification of engineering services at Menwith Hill Station, Harrogate, has been awarded by PSA Building Management, of Leeds.

Other projects include additional refurbishment work at Levers development department at Port Sunlight, Merseyside–and the adaption of Sarsons Vinegar warehouse for storage for the Nestle Company in Manchester, at a cost of £421,000.

Three projects of more than £1m each have been won by the housing division. They are for replacing windows to a 15-storey tower block for Sefton Borough Council at Seaforth, worth £1.3m; modernising 48 houses for Middlesborough Borough Council (£1.1m); and repairs and improvements are to be undertaken on 40 council houses for Gloucester City Council (£1.1m).

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWEDEN (continued) | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO

4:00 pm prices July 5

Quotations in cents unless marked $

[illegible]

Total Sales 7,161,700 shares

MONTREAL

3:45 pm prices July 5

[illegible]

INDICES

NEW YORK

DOW JONES	July 5	July 4	July 3	July 2	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
◊Industrials	2932.47	(c)	2934.70	2972.72	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	94.45	(c)	94.42	94.37	95.09 (30/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1195.70	(c)	1187.06	1179.65	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	197.56	(c)	197.37	199.07	220.89 (16/4)	196.87 (28/6)	236.23 (2/1/90)	10.50 (8/4/32)

◊Day's High 2953.26 (c) Low 2917.71 (c)

STANDARD AND POOR'S

	July 5	July 4	July 3	July 2	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	374.08	(c)	373.33	377.47	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	446.19	(c)	445.30	450.17	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	28.94	(c)	28.79	29.23	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	204.92	(c)	204.47	206.52	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	359.41	(c)	358.41	360.35	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	474.05	(c)	474.32	478.78	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	June 28	June21	June14	year ago (approx.)
Dow Industrial Div. Yield	3.16	3.07	3.03	3.74
	Jul 3	Jun 26	Jun 19	year ago (approx.)
S & P Industrial div. yield	2.81	2.83	2.80	2.96
S & P Indl. P/E ratio	18.77	18.68	18.85	16.95

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Am T & T	1,030,300	38⅞	- ⅛
Blockbuster	999,400	8⅝	+ ⅛
Telefonos	920,600	27⅛	+ ⅝
Phillip Morris	906,900	65⅝	+ ¼
Am Express	906,300	22	- ⅛
BankAmerica	877,500	34½	- 1
Gen Motors	870,200	42½	+ ⅛
Upjohn	788,100	44½	+ ¼
IBM	779,900	98⅝	+ ½
Placer Dom	758,000	14⅛	- ⅛

TRADING ACTIVITY

† Volume Millions	July 5	July 4	July 3
New York SE	69.790	(c)	139.290
Amex	5.130	(c)	10.577
NASDAQ	(u)	(c)	125.020
NYSE			
Issues Traded	1,940	-	2,032
Rises	795	-	457
Falls	547	-	1,116
Unchanged	598	-	459
New Highs	20	-	27
New Lows	11	-	26

CANADA

TORONTO	July 5	July 4	July 3	July 2	1991 HIGH	1991 LOW
Metals & Minerals	3160.20	3177.90	3155.08	3184.00	3784.18 (5/3)	2632.06 (9/1)
Composite	3482.30	3485.45	3479.07	3493.70	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1848.60	1846.08	1837.94	1851.13	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 5	July 4	July 3	July 2	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1536.1	1523.9	1528.7	1543.2	1558.3 (29/4)	1204.5 (16/1)
All Mining (1/1/80)	679.4	670.2	665.3	672.2	680.1 (29/4)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	480.35	478.13	469.90	485.51	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1150.80	1154.98	1152.60	1158.40	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	373.69	371.51	369.57	369.48	373.69 (5/7)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	962.7	955.0	950.7	953.5	1186.9 (8/4)	898.5 (23/1)
FRANCE						
CAC General (31/12/82)	457.89	460.67	462.47	468.56	494.95 (12/6)	394.88 (15/1)
CAC 40 (31/12/87)	1723.14	1708.65	1718.02	1750.47	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	682.83	680.93	677.36	675.95	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1925.5	1920.9	1910.3	1905.6	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1618.91	1616.11	1614.41	1610.50	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3892.71	3850.71	3796.57	3772.91	3917.09 (20/5)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1368.89	1362.29	1360.95	1369.50	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	570.48	567.86	568.67	578.45	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	22898.34	23135.61	23373.47	23995.76	27146.91 (18/3)	22442.70 (16/1)
Tokyo SE (Topix) (4/1/68)	1783.23	1796.98	1820.65	1866.12	2028.85 (18/3)	1625.08 (17/1)
2nd Section (4/1/68)	3138.88	3165.72	3221.72	3271.53	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	608.04	606.81	608.22	613.50	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	276.5	276.9	276.6	279.7	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	197.0	197.3	197.1	199.3	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	758.87	754.38	753.26	756.53	792.13 (4/6)	610.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	1063.83	1094.17	1074.16	1061.98	1183.40 (29/5)	582.64 (18/1)
SINGAPORE						
SES All-Singapore (2/4/75)	396.49	395.24	398.88	404.07	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1469.04	1443.0	1445.0	1411.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	3884.04	3864.0	3860.0	3828.0	3911.0 (20/6)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	614.58	603.37	602.83	611.65	697.62 (4/1)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	273.01	274.26	271.72	275.96	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affärsvärlden Gen. (1/2/37)	1132.2	1138.1	1133.3	1135.5	1137.8 (19/6)	888.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	751.1	749.1	745.1	749.0	766.1 (31/5)	590.4 (14/1)
SBC General (1/4/87)	621.3	621.0	618.8	622.2	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	5591.96	5607.21	5604.69	5613.10	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	716.29	712.57	723.81	739.54	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) (5)	483.3*	482.1	483.8	490.4	529.2 (17/4)	439.1 (16/1)

**Saturday June 22: Taiwan Weighted Price: 6132.73 Korea Comp Ex. 590.57.
a Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 5 July 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Hitachi	6.2	1,150	-10	Hitachi Zosen	3.0	607	-13
Kitano Const.	5.4	1,970	-60	Nippon Carbon	3.0	827	-14
NEC	3.7	1,460	-30	Victor	3.0	1,740	+70
Mitsubishi Heavy	3.6	703	0	Akai Electric	2.8	1,140	-50
Sumitomo Metal	3.4	408	-4	Kawasaki Steel	2.8	391	-8

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. (u) unavailable. ... suspended. xd ex dividend. xc ex scrip issue. xr ex rights. xa ex all.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	49.14	49.14	52.55	6.40	40000
Gilts & Fixed Int	6	111.5	111.5xd	118.2	9.73	40001
High Inc Equity	6	130.2	133.8xd	142.3	5.97	40002
Worldwide Bond	6	209.9	209.9xd	222.4	6.74	40003
Capital Growth						
American Growth	6	201.8	201.8	215.8	1.01	40004
Asian Pacific	6	136.0	138.8	147.6	1.06	40005
Assets & Earnings	6	170.4	174.1xd	185.2	3.12	40006
Capital Reserve Acc	0	105.2	105.2	105.3	7.20	40007
Capital Reserve Inc	0	83.22	83.22	83.28	7.20	47580
Commodity & Energy	6	81.31	81.31	86.96	2.71	40008
1992 Enterprise	6	61.50	62.99	67.01	2.88	46597
Euro Capital Acc	6	86.84	86.84	92.87	1.46	40009
Euro Capital Inc	6	82.97	82.97	88.73	1.47	47581
General	6	166.0	166.0	177.5	2.82	40010
Japan	6	98.47	98.47	105.3	—	40011
Mastertrust	6	89.25	89.25	95.45	2.14	40012
UK Growth Acc	6	153.3	153.3	163.9	2.76	40013
UK Growth Dist	6	98.48	98.48	105.3	2.78	40014
US Emerging Cos	6	64.54	64.54	69.02	—	40015
Income & Growth	6	290.4	290.4xd	310.5	4.51	40016
Ethical	6	48.35	48.35xd	51.71	3.27	40017
International	6	62.88	63.68	67.74	1.30	46852
Dividend & Growth	6	46.62	47.88xd	50.85	5.40	47871
Global Gwth & Sec	6	51.07	51.31	54.58	1.83	46946

Manulife Management Ltd (1200)H
St George's Way, Stevenage Dealings: 071-256 5858

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Units	5¼	130.0	130.8	139.2	3.95	40905
Gilt & F xd Int	5	143.5	143.5	151.9	8.56	40904
Intl Growth	5¼	150.7	152.2	161.9	1.42	40908
North American ♥	5¼	97.85	99.26	105.6	0.37	40910
Far East	5¼	123.0	124.0xd	131.9	0.35	40911
UK Smaller Cos	5¼	102.7	102.7xd	109.3	3.31	40909
European	5¼	53.52	53.52xd	57.11	1.12	40912
Japanese Growth	5¼	37.89	37.89	40.59	0.00	47786
Managed P'folio	5¼	49.41	49.83xd	53.01	1.77	47787
High Income	5¼	144.8	146.7	156.1	6.21	40906
High Yielding Gilt	5¼	61.53	61.53	64.85	9.49	40907
Cash		51.12	51.12	51.12	10.22	46061

Geoffrey Morley Unit Mgrs Ltd (1200)F
3 Bedford Park, Croydon CR0 2AQ 081-686 9818

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Exempt Unit Tst	4	113.72	113.72	121.20	2.60	43852
Exempt Smllr Cos	3¼	221.58	221.58	232.66	1.40	43853

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit fund name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071 – 379 – 0444.

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Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Sun Alliance Unit Tst Mngmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Trust Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)H

Target Trust Mngrs Ltd (1200)F

Templeton Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Management Ltd (1430)F

Timberlake Trust Mngrs Ltd (0900)F

Touche Remnant Unit Tst Mngt Ltd (1600)F

Trades Union Unit Tst Mngrs (1200)H

United Charities Unit Trusts (1000)H

Wardley Unit Tst Mngrs Ltd (1300)F

Waverley Unit Tst Mngmt Ltd (1000)F

Wessex Asset Management (1600)F

Whittingdale Unit Tst Mngmt Ltd (0830)F

Willbro Financial Services Ltd (0905)F

Woolwich Unit Trust Managers Ltd (1700)H

Wright Seligman Fund Mngrs Ltd (1700)F

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charities/Charishares (1000)F

CAFINVEST–Charities Aid Foundation

COIF–Charities Official Inv Fund

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

Morgan Grenfell Unit Trust Managers Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

Rothschild Asset Management

J. Rothschild Fund Managers Ltd

Stewart Ivory & Co Ltd

Thornton Unit Managers Ltd

Touche Remnant Unit Tst Mngt Ltd

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Acorn Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Albion Life Assurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Ambassador Life Assce. Co Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd

Canterbury Life Plc

Citibank Life

City of Westminster Assurance

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Consolidated Life Assurance Co Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance PLC

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Equity & Law

Eurolife Assurance Company Ltd

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident

General Portfolio Life Insur. Plc

Guardian Royal Exchange

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

Manulife Group (The)

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

Continued on next page

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	Bid Price	Offer Price	Yield Gross	City-line
N & P Life Assurance Ltd				
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348				
Life Managed Fd	105.7	111.2	-	42924
Pension Managed Fd	103.1	108.5	-	42926
Life Deposit Fd	107.9	113.4	-	42923
Pension Deposit Fd	113.2	119.2	-	42925
National Financial Management Corp PLC				
72 Gatehouse Rd, Aylesbury, HP19 3LJ 0296 395539				
Life Funds				
Managed Cautionary	106.7	112.4	-	47150
Managed Growth	134.9	142.0	-	47151
Managed Opportunity	137.1	144.4	-	47152
NFMC Target Financial	100.8	106.2	-	47153
Pension Funds				
Managed Cautionary	117.2	123.4	-	47154
Managed Growth	142.8	150.4	-	47155
Managed Opportunity	137.4	144.7	-	47156
NFMC Target Mngd Fund	1506.1	1585.4	-	47157
National Mutual Life				
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422				
Hampshire Pension Funds				
Managed	161.2	169.7	-	43141
UK Equity	165.3	174.0	-	43135
Overseas Equity	140.8	148.3	-	43136
Fixed Interest	144.4	152.1	-	43137
Property	127.0	133.7	-	43138
Index Linked	146.5	154.3	-	43139
Deposit	157.7	166.1	-	43140
With Profits (B)	129.4	136.3	-	44128

	Bid Price	Offer Price	Yield Gross	City-line
Prosperity Life Assurance Ltd				
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555				
Initial Equity	149.5	158.0	-	42995
Accum Equity	214.5	226.0	-	43005
Accum Managed	225.0	237.5	-	43006
Accum Five Star	171.5	181.0	-	43011
Accum World	124.0	131.0	-	43013
Accum Lifetime	108.9	108.9	-	47139
Pens Acc Equity	229.5	242.0	-	43025
Pens Acc Managed	279.5	294.5	-	43026
Pens Acc Intl	215.5	227.5	-	43027
Pens Acc Deposit	200.0	211.0	-	43029
Pens Acc Five Star	188.0	198.5	-	43031
Providence Capital Life Assc. Co Ltd				
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888				
UK Equity Acc.	221.3	233.5	-	43411
UK Fixed Int Acc.	175.2	184.9	-	43412
Intl Equities Acc.	178.8	188.7	-	43413
UK Managed Acc.	172.5	181.9	-	43414
Property Acc.	224.1	236.4	-	43415
Money Acc.	129.7	136.9	-	43416
Special Market Acc.	143.5	151.4	-	43417
Japan Equity Acc.	105.0	110.8	-	46760
North American Acc.	110.3	116.4	-	43419
Pacific Acc.	99.1	104.6	-	43420
Technology Acc.	126.6	133.6	-	43421
Nat. Resources Acc.	66.6	70.3	-	43422
European Acc.	100.1	105.6	-	43424
Residential Prop Acc.	96.2	101.5	-	43425
Swiss Equities Acc.	34.7	36.7	-	43426
Hong Kong Acc.	70.9	74.8	-	43427
UK High Inc Eq Acc.	71.4	75.4	-	43428
Int. Fixed Interest Acc.	57.7	60.9	-	46406
Int. Managed Acc.	57.1	60.2	-	46407
HIP Managed Acc.	117.9	124.3	-	46751

	Bid Price	Offer Price	Yield Gross	City-line
CMI Insurance Co Ltd – Contd.				
Iberian Equity	£0.4550	0.4900	-	45261
Nordic Equity	£0.4320	0.4650	-	44850
Benelux Equity	£0.4420	0.4760	-	44995
Dollar Funds				
Antipodean Equity	$0.5390	0.5800	-	45317
Canadian Equity	$0.4530	0.4880	-	46336
Japanese Equity	$0.4820	0.5190	-	45319
US Equity	$0.4610	0.4960	-	46337
SE Asia Equity	$0.5580	0.6000	-	45425
US Bond	$0.4720	0.5080	-	45498

	Bid Price	Offer Price	Yield Gross	City-line
ECU Futures Plc				
ECU Omega Funds	166.0		-	43354
ECU Reyden	125.0		-	44713
Edinburgh Money Management Ltd				
41a Charlotte Square, Edinburgh EH2 4HQ 031 220 1244				
Select Portfolio	27.9	29.4	-	46833
Fairmount Financial Services Ltd				
Fairmount Hse, Bull Hill, Leatherhead 0372 370000				
Secure	105.9		-	43081

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

GUERNSEY (REGULATED)

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IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

D-Mark set to hold

The D-Mark showed very little movement in the European exchange rate mechanism last week despite a weaker trend against the dollar.

Sentiment surrounding the D-Mark was weak, as a result of the crisis in Yugoslavia, rising German inflation, a weaker trade position and fears that a recent German court ruling might herald the return of withholding tax on investment income.

UK clearing bank base lending rate
11.5 per cent
from May 24, 1991

These factors contrasted with events in the US, where hopes of an early end to recession led to demand for the dollar, while the D-Mark's European partners lacked attraction, mainly because of interest rate trends.

Belgium and the Netherlands have effectively locked their currencies to the D-Mark and will therefore keep rates in line with those in Germany.

Among other countries with ERM currencies it is assumed that Spain, Britain and France are all looking to cut rates. Italy recently cut its discount rate by 1 point to 11½ per cent, but may have limited opportunities for further reductions against the background of inflation at around 6¾ per cent.

Spanish rates have softened, bringing the peseta down from its ERM ceiling, while French rates are holding steady as political nervousness contributes to a weak performance by the franc.

Futures markets in London are discounting a 1 point cut in UK bank base rates by September, ahead of a general election, which must be held in less than one year.

This leaves Germany, where on Thursday the Bundesbank council holds its last meeting before the summer recess. Opinions are divided on whether this will result in higher official rates, but until the matter is settled the D-Mark looks set to at least hold its position in the ERM.

£ IN NEW YORK

July 5	Close	Previous Close
£ Spot	1.6150-1.6160	1.6060-1.6070
1 month	0.72-0.70pm	0.74-0.72pm
3 months	1.94-1.92pm	2.02-1.98pm
12 months	5.58-5.50pm	5.65-5.55pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Jul 5	Bank of England Index	Morgan** Guaranty Changes %
Sterling	89.8	-21.6
U.S Dollar	68.4	-10.0
Canadian Dollar	107.2	+4.1
Austrian Schilling	108.0	+10.8
Belgian Franc	109.3	-3.2
Danish Kroner	106.6	+1.9
D-Mark	115.0	+22.3

STERLING INDEX

CURRENCY RATES

OTHER CURRENCIES

CHICAGO

POUND SPOT - FORWARD AGAINST THE POUND

Jul 5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6020 - 1.6170	1.6155 - 1.6165	0.72-0.70cpm	5.27	1.95-1.92pm	4.79
Canada	1.8295 - 1.8510	1.8500 - 1.8510	0.46-0.40cpm	2.79	1.16-1.07pm	2.41
Netherlands	3.3150 - 3.3275	3.3175 - 3.3275	¾-½cpm	2.26	1⅝-1¼pm	1.73
Belgium	60.50 - 60.90	60.80 - 60.90	15-10cpm	2.47	29-25pm	1.77
Denmark	11.3675 - 11.4275	11.3875 - 11.3975	2¼-1⅞orepm	2.17	5¼-4¼pm	1.67
Ireland	1.0930 - 1.1050	1.1040 - 1.1050	0.15-0.10cpm	1.36	0.35-0.25pm	1.09
Germany	2.9450 - 2.9560	2.9500 - 2.9550	⅝-½pfpm	2.29	1⅝-1¼pm	1.78
Portugal	256.00 - 258.80	256.00 - 257.00	132-174cdis	-7.16	242-309dis	-4.30
Spain	184.50 - 185.50	184.95 - 185.25	13-21cdis	-1.10	48-61dis	-1.18
Italy	2189.75 - 2199.25	2195.25 - 2196.25	1lirepm-par	0.27	2-4dis	-0.55
Norway	11.4825 - 11.5375	11.5050 - 11.5150	1¾-¾orepm	1.17	2⅝-1⅛pm	0.76
France	9.9825 - 10.0075	9.9950 - 10.0050	1⅜-1¼cpm	1.50	3¼-2¾pm	1.23
Sweden	10.6425 - 10.6950	10.6650 - 10.6750	1¼-¾orepm	1.12	1⅝-¾pm	0.47
Japan	222.00 - 224.00	223.00 - 224.00	¾-⅝ypm	3.69	2-1¾pm	3.47
Austria	20.72 - 20.86	20.82 - 20.85	4¼-3⅛gropm	2.09	10½-8½pm	1.79
Switzerland	2.5375 - 2.5525	2.5400 - 2.5500	¾-⅝cpm	3.24	2-1¾pm	2.95
Ecu	1.4315 - 1.4455	1.4445 - 1.4455	0.18-0.13cpm	1.29	0.37-0.28pm	0.90

Commercial rates taken towards the end of London trading. Six-month forward dollar 3.34-3.29cpm. 12 Month 5.58-5.48cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6020 - 1.6170	1.6155 - 1.6165	0.72-0.70cpm	5.27	1.95-1.92pm	4.79
Ireland†	1.4530 - 1.4680	1.4670 - 1.4680	0.50-0.45cpm	3.91	1.42-1.32pm	3.76
Canada	1.1420 - 1.1440	1.1430 - 1.1440	0.23-0.26cdis	-2.57	0.68-0.73dis	-2.50
Netherlands	2.0540 - 2.0750	2.0560 - 2.0570	0.53-0.56cdis	-3.17	1.60-1.65dis	-3.10
Belgium	37.60 - 37.90	37.60 - 37.70	8.50-10.50cdis	-3.02	25.00-31.00dis	-3.07
Denmark	7.0450 - 7.1200	7.0475 - 7.0525	1.73-2.03oredis	-3.18	5.30-5.90dis	-3.19
Germany	1.8250 - 1.8430	1.8260 - 1.8270	0.46-0.48pfdis	-3.07	1.42-1.45dis	-3.11
Portugal	159.50 - 161.10	159.50 - 159.60	120-160cdis	-10.51	320-370dis	-9.26
Spain	114.45 - 115.70	114.50 - 114.60	61-64cdis	-6.52	172-180dis	-6.19
Italy	1358.50 - 1370.75	1358.50 - 1359.00	6.00-6.50liredis	-5.49	17.80-18.80dis	-5.36
Norway	7.1200 - 7.1900	7.1200 - 7.1250	2.40-2.70oredis	-4.28	7.20-7.70dis	-4.19
France	6.1825 - 6.2500	6.1850 - 6.1900	1.95-2.01cdis	-3.82	5.63-5.73dis	-3.61
Sweden	6.5950 - 6.6650	6.6000 - 6.6050	2.21-2.46oredis	-4.22	7.10-7.55dis	-4.40
Japan	138.00 - 139.25	138.30 - 138.40	0.15-0.17ydis	-1.38	0.46-0.49dis	-1.42
Austria	12.87 - 12.97	12.87 - 12.90	2.50-5.00grodis	-3.49	7.50-12.00dis	-3.02
Switzerland	1.5705 - 1.5900	1.5745 - 1.5755	0.24-0.27cdis	-1.93	0.70-0.75dis	-1.83
Ecu	1.1160 - 1.1255	1.1245 - 1.1255	0.38-0.36cpm	3.97	1.11-1.07pm	3.93

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency

EXCHANGE CROSS RATES

July 5	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C$	B Fr.	ECU
£	1	1.616	2.952	223.5	10.00	2.545	3.322	2196	1.850	60.85	1.445
$	0.619	1	1.827	138.3	6.188	1.575	2.056	1359	1.145	37.65	0.894
DM	0.339	0.547	1	75.71	3.388	0.862	1.125	743.9	0.627	20.61	0.489
YEN	4.474	7.230	13.21	1000.	44.74	11.39	14.86	9826	8.277	272.3	6.465
F Fr.	1.000	1.616	2.952	223.5	10.	2.545	3.322	2196	1.850	60.85	1.445
S Fr.	0.393	0.635	1.160	87.82	3.929	1	1.305	862.9	0.727	23.91	0.568
H Fl.	0.301	0.486	0.889	67.28	3.010	0.766	1	661.0	0.557	18.32	0.435
Lira	0.455	0.736	1.344	101.8	4.554	1.159	1.513	1000.	0.842	27.71	0.658
C$	0.541	0.874	1.596	120.8	5.405	1.376	1.796	1187	1	32.89	0.781
B Fr.	1.643	2.656	4.851	367.3	16.43	4.182	5.459	3609	3.040	100.	2.375
ECU	0.692	1.118	2.043	154.7	6.920	1.761	2.299	1520	1.280	42.11	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

Jul 5	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	11⅞ - 11⅝	11⅞ - 11⅝	11¾ - 11⅝	11⅝ - 11½	10¾ - 10⅝	10½ - 10⅜
US Dollar	5¾ - 5⅝	6 - 5¾	6¼ - 5⅞	6⅜ - 6¼	6½ - 6⅜	6⅞ - 6¾
Can. Dollar	8¼ - 8	8½ - 8¼	8½ - 8¼	8⅝ - 8½	8¾ - 8½	9¼ - 8¾
Dutch Guilder	9 - 8¾	9¼ - 9	9¼ - 9	9¼ - 9⅛	9⅜ - 9¼	9⅜ - 9¼
Swiss Franc	8¼ - 8	8 - 7¾	7⅞ - 7¾	8 - 7¾	8 - 7¾	7¾ - 7½
D-Mark	8¾ - 8½	8¾ - 8½	9 - 8¾	9⅜ - 9¼	9½ - 9¼	9½ - 9⅜
French Franc	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝
Italian Lira	12 - 10	11¾ - 10¾	11⅝ - 11¼	11⅝ - 11⅜	11¾ - 11½	11⅞ - 11¾
Belgian Franc	8¾ - 8½	9 - 8¾	9¼ - 9	9⅜ - 9¼	9⅜ - 9¼	9½ - 9⅜
Yen	7⅜ - 7¼	7⅜ - 7½	7½ - 7⅜	7⅞ - 7¾	7⅜ - 7½	7½ - 7⅜
Danish Krone	9¼ - 9⅛	9¼ - 9⅛	9⅜ - 9¼	9½ - 9⅜	9⅝ - 9½	9⅝ - 9½
Asian $Sing	6 - 5¾	6 - 5¾	6⅛ - 5⅞	6⅜ - 6¼	6⅜ - 6¼	6⅞ - 6¾

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Jul 5	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
ECU Linked Dep. Offer	-	-	9⅞	10⅛	10⅛	10⅛
ECU Linked Dep. Bid	-	-	9⅞	9⅞	10	9⅞

Treasury Bills (sell); one-month 11 per cent; three months 10⅞ per cent; six months 10½ per cent; Bank Bills (sell): one-month 11⅛ per cent; three months 10⅞ per cent; Treasury Bills; Average tender rate of discount 10.6714 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 28, 1991. Agreed rates for period July 24, 1991 to August 25, 1991, Scheme I: 12.50 p.c., Schemes II & III: 12.53 p.c. Reference rate for period June 1, 1991 to June 28, 1991, Scheme IV&V: 11.295 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 11½ from July 1, 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 8 per cent; one-three months 10½ per cent; three-six months 10 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 8 per cent from May 28, 1991, Deposits withdrawn for cash 5 per cent.

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
1.575	4.07	4.61	5.01	5.97	0.09	1.30	2.18	4.38
1.600	2.00	2.95	3.47	4.63	0.40	2.19	3.20	5.65
1.625	0.55	1.80	2.41	3.53	1.66	3.51	4.63	7.13
1.650	0.12	1.05	1.52	2.64	3.50	5.22	6.31	8.67
1.675	-	0.53	0.92	1.98	5.85	7.21	8.20	10.46
1.700	-	0.22	0.56	1.47	8.28	9.36	10.18	12.38
1.725	-	0.07	0.30	1.05	10.79	11.67	12.40	14.41

Previous day's open int: Calls 331,061 Puts 264,031 (All currencies)
Previous day's volume: Calls 23,369 Puts 7,468 (All currencies)

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	July 5	July 4	July 3	July 2	July 1	June 28	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.80	84.55	84.28	83.89	83.89	83.60	85.88	82.17	127.4	49.18
Fixed Interest	93.35	93.27	93.16	93.04	93.01	92.95	94.84	90.59	105.4	50.53
Ordinary	1911.8	1904.7	1894.9	1907.2	1898.7	1877.9	2014.5	1606.3	2014.5	49.4
Gold Mines	216.6	217.1	209.8	207.7	203.9	201.0	217.1	127.0	734.7	43.5
FT-Act All Share	1189.05	1183.05	1174.07	1179.25	1172.21	1161.19	1232.32	987.46	1238.57	61.92
FT-SE 100	2484.7	2470.4	2448.2	2460.2	2443.6	2414.8	2545.3	2054.8	2545.3	136.9
FT-SE Eurotrack 100	1098.71	1099.95	1095.64	1109.86	1112.76	1106.47	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1145.27	1140.75	1133.99	1143.96	1141.98	1136.32	1192.11	938.62	1192.11	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
615	Treas 10pc Cv '91 ‡‡	99⅞	.....	5.6	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	100	.....	19.3	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	99⅛	0.2	7.5	10Jun 10Dec	1335
775	Treas 12¾pc 1992‡‡	101⅛xd	.....	17.6	22Jul 22Jan	1297
1,600	Treas 10pc 1992	99⅞	0.1	15.1	21Aug 21Feb	1283
1,550	Treas. 8pc 1992 ‡‡	98⅛	0.1	7.3	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100⅛	0.1	2.4	7Nov 7May	1289
500	Treas. 3pc 1992	95⅛	0.2	7.5	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	102⅛	0.2	21.1	25Feb 25Aug	1265
1,757	Exch 13½pc 1992	103½	0.1	13.2	22Mar 22Sep	1266
800	Treas 8¼pc 1993	97⅛	0.2	14.1	18Aug 18Feb	5047
1,850	Treas 10pc 1993‡‡	99⅞	0.3	11.3	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	104⅛	0.3	7.6	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	93⅞	0.3	6.2	15Mar 15Sep	1276

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
3,075	Treas 9¾pc 2002	96⅝	1.7	21.1	27Feb 27Aug	1349
1,703	Treas 10pc 2003	98⅞	2.0	30.1	8Mar 8Sep	1281
1,620	Treas. 11½pc 2001-04	106¼	1.6	11.2	19Sep 19Mar	1290
443	Funding 3½pc '99-04	58⅝	2.5	7.6	14Jan 14Jul	1274

Over Fifteen Years

Amount £m	Stock	Price £	Wk % change
1,800	Treas. 8pc 2002-06‡‡	83⅞	2.1
3,150	Treas. 11¾pc 2003-07	109⅞xd	1.8
1,546	Treas 8½pc 2007 ‡‡	88⅛	2.0
1,250	Treas. 13½pc '04-08	122⅞	1.8
2,521	Treas. 9pc 2008 ‡‡	92⅛	1.9
1,000	Do. 9pc 2008 C	92⅛	1.9

Index-Linked

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1990: 130.3 and for May 1991: 133.5.

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Wk % change	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	101⅛	2.7	1.12	4Jan 4Jan	–
100	Asian Dev Bk 10¼pcLn2009	96½	1.7	28.3	24Mar 24Sep	–
75	Int-Am Dev Bk 12½pc 2003	110⅞	2.0	7.12	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	98⅞	1.8	13.10	15May 15Nov	–

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

25	Met. Wtr. 3pc 'B'	52	1.8	1Mar 1Sep	3361

FOREIGN BONDS & RAILS

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	FRIDAY JULY 5 1991 US Dollar Index	% chg ($) since 31/12/90	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/90	Gross Div. Yield	THURSDAY JULY 4 1991 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1991 High	1991 Low	Year ago (approx)
Australia (70)	142.44	+20.7	130.68	124.57	135.26	123.77	+21.6	5.19	140.99	130.24	123.97	134.51	122.84	147.30	112.74	147.78
Austria (20)	170.63	-13.2	156.54	149.23	162.03	162.35	+6.1	1.70	171.33	158.27	150.65	163.46	163.14	222.37	167.00	260.74
Belgium (49)	123.97	-8.2	113.73	108.41	117.72	115.10	+14.1	5.13	123.91	114.46	108.94	118.21	115.35	151.20	121.73	151.55
Canada (115)	138.36	+6.4	126.93	120.99	131.37	114.56	+4.8	3.40	138.69	128.11	121.94	132.30	114.74	142.27	126.49	137.87
Denmark (37)	241.40	+3.8	221.47	211.11	229.23	231.47	+26.6	1.52	236.27	218.25	207.75	225.40	227.76	270.56	217.74	261.47
Finland (16)	91.48	-11.3	83.93	80.01	86.87	83.74	+6.7	2.88	91.94	84.93	80.85	87.72	84.14	125.15	90.00	136.29
France (114)	122.20	-7.2	112.12	106.86	116.03	118.61	+12.8	3.73	120.60	111.41	106.04	115.05	117.77	152.26	120.80	158.80
Germany (65)	103.46	-7.5	94.92	90.50	98.25	98.25	+13.0	2.28	102.74	94.91	90.35	98.01	98.01	125.35	102.03	138.18
Hong Kong (55)	162.14	+33.1	148.76	141.80	153.96	161.69	+32.6	4.79	160.22	148.00	140.87	152.85	159.76	162.14	119.62	139.75
Ireland (16)	142.93	-3.7	131.13	125.00	135.72	137.24	+16.6	3.72	141.03	130.28	124.01	134.55	136.25	182.46	132.88	189.55
Italy (77)	71.28	-9.0	65.40	62.33	67.68	72.33	+9.6	3.23	70.54	65.16	62.02	67.29	71.95	88.23	70.54	104.61
Japan (474)	125.62	+0.7	115.25	109.86	119.30	109.86	+2.7	0.77	125.77	116.18	110.58	120.00	110.58	146.97	118.35	149.71
Malaysia (68)	228.04	+7.5	209.22	199.42	216.54	245.35	+11.2	2.67	228.32	210.90	200.74	217.81	245.64	247.78	192.83	234.81
Mexico (18)	1058.61	+80.8	969.38	924.04	1003.35	3483.62	+84.6	1.54	1025.28	947.08	901.50	978.13	3380.32	1079.72	534.45	494.53
Netherland (31)	130.27	-2.7	119.51	113.92	123.70	122.27	+18.6	4.38	129.89	119.98	114.21	123.92	122.42	145.73	125.70	141.16
New Zealand (13)	47.76	+10.0	43.82	41.77	45.36	44.72	+14.0	7.84	47.78	44.13	42.01	45.58	44.72	54.64	41.18	66.06
Norway (32)	186.76	-8.6	171.34	163.33	177.35	180.55	+10.7	1.63	184.56	170.48	162.28	176.07	179.17	223.24	182.24	237.04
Singapore (38)	189.35	+18.9	173.72	165.59	179.80	154.10	+20.8	2.22	188.53	174.15	165.77	179.86	153.43	208.25	151.63	202.45
South Africa (61)	238.89	+30.6	219.17	208.92	226.85	171.76	+26.1	3.18	233.39	215.59	205.21	222.65	169.21	238.89	173.00	179.05
Spain (56)	142.71	+1.7	130.92	124.80	135.51	123.84	+21.9	4.32	142.88	131.98	125.63	136.31	124.53	171.12	131.51	173.80
Sweden (26)	185.03	+16.0	169.75	161.82	175.71	180.85	+36.2	2.45	183.84	169.82	161.65	175.39	180.57	204.12	146.60	230.80
Switzerland (58)	87.68	-1.4	80.44	76.68	83.27	85.62	+21.8	2.25	87.36	80.70	76.82	83.36	85.74	100.67	82.17	108.16
United Kingdom (240)	160.14	-3.3	146.92	140.04	152.06	146.92	+15.4	4.99	158.26	146.19	139.14	150.97	146.19	187.44	156.27	169.12
USA (526)	151.34	+13.5	138.84	132.35	143.72	151.34	+13.5	3.19	151.05	139.53	132.82	144.11	151.05	158.24	125.95	144.91
Europe (838)	128.67	-4.4	118.05	112.53	122.19	120.50	+15.5	3.86	127.50	117.78	112.11	121.64	120.08	151.52	125.50	152.23
Nordic (111)	178.71	+6.6	163.95	156.29	169.70	166.29	+27.7	1.96	176.35	162.90	155.06	168.24	164.89	200.81	155.55	213.54
Pacific Basin (718)	127.11	+2.4	116.62	111.17	120.71	111.88	+4.4	1.14	127.14	117.45	111.80	121.30	112.26	145.92	117.86	149.14
Euro-Pacific (1556)	128.05	-0.5	117.48	111.98	121.59	115.97	+8.7	2.26	127.61	117.87	112.19	121.73	116.17	147.66	121.29	150.80
North America (641)	150.45	+13.1	138.03	131.59	142.89	148.86	+13.0	3.20	150.19	138.74	132.06	143.31	148.60	157.04	125.91	144.39
Europe Ex. UK (598)	109.70	-5.0	100.64	95.95	104.19	105.14	+15.6	3.19	108.91	100.61	95.78	103.93	104.90	129.80	108.85	140.53
Pacific Ex. Japan (244)	141.94	+22.5	130.22	124.15	134.80	127.93	+23.5	4.55	140.75	130.02	123.78	134.29	127.00	145.68	111.40	141.56
World Ex. US (1748)	130.11	+0.4	119.37	113.79	123.56	117.36	+9.2	2.32	129.61	119.72	113.97	123.65	117.50	148.16	122.32	150.84
World Ex. UK (2034)	133.99	+6.1	122.93	117.19	127.25	126.07	+10.3	2.39	133.70	123.50	117.56	127.56	126.15	145.77	120.06	145.51
World Ex. So. Af. (2213)	135.61	+4.7	124.42	118.61	128.79	127.67	+10.6	2.64	135.22	124.91	118.91	129.02	127.70	148.66	122.92	147.41
World Ex. Japan (1800)	143.24	+7.1	131.42	125.28	136.04	138.00	+14.9	3.52	142.50	131.64	125.31	135.97	137.59	152.83	126.69	147.98
The World Index (2274)	136.29	+5.0	125.04	119.20	129.43	128.06	+10.8	2.64	135.87	125.50	119.47	129.63	128.07	149.01	123.28	147.60

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES— Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year, 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

AMERICANS

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

For Scott. Hydro-Electric and Scottish Power see EQUITIES under LONDON RECENT ISSUES

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRANSPORT – Contd

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ‡ Not comparable
- § Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents, e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 ... β	640xd	-2.3
Finlay Pkg. 5p ... β	27	.....
Holt (Jos) 25p ... β	1975	2.4
Helton Hldgs. ... γ	43	.....

IRISH

Cap. 8½% Ln. 1991	£99¾	0.1
9pc Cap Ln. 1996	£97½	-0.3
Fin. 13% 97/02	£114¼	.....
Arnotts	165	6.5
IRG	128½	.....
United Drug	170	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp.	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons.	45
Comm Union	44
Courtaulds	32
Eurotunnel	50
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd.	39
ICI	80
Ladbroke	22
Legal & Gen.	36
Lex Service	20
Lloyds Bank	30
Lucas Inds.	13
Marks & Spencer	21
Midland Bk.	18
Nat West Bk.	27
P & O Dfd.	51
Racal Elect.	18
RHM	28
Rank Org Ord.	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	68
Vickers	19
Wellcome	48

Property

Brit Land	30
Control Secs.	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Aviva Petlm	3
Brit Petroleum	28
Burmah Castrol	49
Conroy Petlm	10
Gaelic Res.	1
Premier	6
Shell	43
Tuskar Res.	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following change has been made to the FT Share Information Service:
Addition: Globe Petroleum (Oils and Gas)

4:00 pm prices July 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp	0.48	0.03	15	287	14⅞	14½	14¾	+⅛
18¾	14½	A L Labs A	0.16	0.01	17	62	16⅛	16	16	
55½	40⅞	AMP Inc	1.44	0.03	19	906	52	51	52	+1
69⅝	44¾	AMR			19	1974	65	63⅝	64½	+½
2⅝	1¼	ARX			1	30	1⅝	1⅝	1½	
53⅝	41½	ASA	3.50	0.06	151	126	d54¼	53⅝	54¼	+1
54	39¼	Abbott Lab	1.00	0.02	22	1576	52⅝	52	52¼	-¼
14½	9⅞	Abitibi Pr	0.50	0.04	26	5	13⅞	13⅝	13⅝	
11⅝	10⅜	ACM Gvt In	1.26	0.11		668	11⅛	10⅞	11	
9¾	8⅞	ACM GvOpp	1.01	0.11		26	9¼	9⅛	9⅛	
9¼	8¼	ACM Gvt Sp x	1.07	0.11		54	9⅛	9	9	-⅛
11	9⅞	ACM Gvt Se x	1.26	0.12		930	10½	10¼	10½	+¼
8⅝	7⅝	ACM Man	1.01	0.12		348	8¼	8⅛	8¼	
12⅞	11½	ACM Managd	1.35	0.11		401	12¼	12⅛	12⅛	-⅛
7½	4¾	Acme Cleve	0.40	0.07	14	70	6⅛	6	6	-⅛
6	3½	Acme Elect			39	60	4⅛	4	4	-⅛
40	22¾	Acuson			23	325	31½	30⅝	31½	+1⅛
18½	14¼	Adams Expr	0.73	0.04	0	18	17⅞	17¾	17⅞	
20⅛	16	Adobe12Pf	2.40	0.13		15	19	18⅞	18⅞	
9¼	6¾	Adobe Res			20	7	7	6⅞	6⅞	-⅛
35⅝	16	Ad Micro				23	34¾	34¼	34¾	+½
14¼	4⅝	Ad Micro P	3.00	0.27	121	465	11⅜	11¼	11¼	-⅛
5⅛	2¼	Advest Grp	0.16	0.04	5	3	4¼	4¼	4¼	
49⅛	33⅞	Aetna Li	2.76	0.07	7	528	41⅛	41	41	-⅛
10⅝	6⅝	Ahli A	0.24	0.03	36	193	9⅛	9	9⅛	
20¾	12	Ahmanson	0.88	0.05	10	991	17½	17	17¼	+¼
12⅛	2⅞	Aileen Inc			16	789	12⅛	11⅝	12	
74⅛	51⅜	Air Pr Chm x	1.44	0.02	15	297	69⅞	68½	68¾	+⅛
26⅝	16⅝	Airbne Frt	0.30	0.01	15	70	24¾	24½	24⅝	-⅛
18⅞	12½	Airgas Inc			65	6	14⅜	14¼	14⅜	-⅛
16¼	10	Airlease x	2.29	0.18	6	15	12½	12⅜	12⅜	-⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Quote Close	Ch'ge Prev. Close
15¼	11½	SCOR US Cp	0.24	0.02	7	50	12⅝	12⅝	12¼	
37	20¾	SPS Techno	1.28	0.04	16	4	28	28	28¼	
2¼	⅞	SeatchI&S			0	556	⅞	d⅞	⅞	−⅛
13	11	Sabine Rlt	1.64	0.13	7	12	12⅞	12⅞	12⅞	
9⅞	5⅞	Safeguard	0.15	0.02	4	412	8⅞	8⅞	8⅞	
13⅜	8⅞	Safeg'd Sc			3	3	12⅞	12⅞	12⅝	
37	25	SafetyKln	0.32	0.01	28	717	30	29⅞	29⅞	+¼
21⅞	11⅞	Safeway			18	870	18⅝	18⅞	18⅞	−⅛
4⅞	2⅞	Safeway[illegible]				2100	4	4	4	
35⅞	28⅞	StJoePaper	0.20	0.01	85	42	34	33¾	34	+½
32	28⅝	StJoeLAP	1.88	0.06	10	10	28¾	28⅝	28⅝	
4¼	1½	Salant Crp			8	71	2⅞	2¾	2⅞	+¼
55¼	43⅞	Sallie Mae	0.80	0.02	16	989	52¼	52⅝	52¼	+¼
13⅝	10⅝	Salomon Br	0.80	0.06		240	13	12⅞	13	+⅛
38	22¼	SalomonInc	0.64	0.02	7	710	32⅝	32¼	32⅝	+¼
45¼	37¼	SaDgo G&E	2.70	0.07	10	154	37⅞	d37⅛	37¼	
4⅝	2⅞	SaIfeEDq x	0.60	0.19	14	32	3¼	3⅛	3⅛	−⅛
16¼	12½	SantaFeSix x	0.10	0.01	49	286	13¼	12½	13	+½
30⅞	25	SantaFePac	2.60	0.09	9	15	29¼	28⅞	29¼	
9⅞	5½	SantaFeStn			28	588	9	8⅞	8⅞	−⅛
41¾	29⅝	Sara Lee	0.84	0.02	20	693	41½	41	41¼	+⅛
¼	⅛	Savin Corp			1	410	0.11	⅛	⅛	−0.02
7⅞	1⅞	Savin 0.80	0.48	0.15		52	3¼	3¼	3¼	
39	33½	Scana Corp	2.62	0.07	8	250	37⅞	37⅛	37⅞	+⅛
40	35	Scecorp x	2.64	0.07	11	1100	39¾	39⅝	39¾	
54	40⅞	ScheringPl	1.32	0.02	18	2376	51⅞	51⅛	51⅞	+⅞
65	50½	Sch'berger	1.20	0.02	22	3458	58⅝	58⅛	58¼	−⅝
28	11⅞	Schwab(C)	0.16	0.01	28	214	25⅞	25	25	−⅞
8⅞	3⅞	Schwitzer			14	27	7⅝	7½	7½	−⅛
17⅞	11½	ScientAtla	0.16	0.01	14	895	14¼	13⅞	14	
9⅝	6⅞	Scotman x	0.10	0.01	7	115	7¼	7⅛	7⅛	−⅛
[illegible]										

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Quote Close	Ch'ge Prev. Close
24⅝	18⅛	Taiwan Fd								
8⅞	4½	TalleyInd	0.20	0.04	0					
11⅞	7	Talley Pf								
59½	38⅞	Tambrands	1.20	0.02	21					
18⅞	9¼	Tandem			18					
36½	25	Tandy Corp x	0.60	0.02	8					
12	10⅞	Taurus Mun	0.74	0.06						
35¼	31½	Teco Energ	1.72	0.05	14					
27	16¼	Tektronix	0.60	0.02	24					
1⅞	⅞	Telecom Co			10					
24⅝	14⅞	Teledyne	0.80	0.04	19					
30⅛	25⅞	TeleEspSA	1.72	0.07	3					
48⅞	28½	Templeinl	0.08	0.02	12					
18½	11½	TempltEmMk	0.16	0.01						
9⅝	8⅞	TempltGlob x	0.90	0.10						
8⅞	7⅞	TempltGFd x	0.90	0.11						
62	33½	TennecoInc	3.20	0.09	104					
22	18⅝	Teppco Pts	2.20	0.11	17					
13⅝	6¼	Teradyne			21					
14¼	9	Terex	0.05	0.01	80					
9⅞	6⅞	Tesoro Pet			6					
70	58½	Texaco	3.20	0.05	101					
82	49⅞	Texaco C	3.93	0.08						
22⅞	14	Texas Ind	0.20	0.01	11					
47⅞	32½	Texas Inst x	0.72	0.02	19					
28	19½	Texas Pac	0.40	0.02	26					
38⅞	34⅞	Texas Util	3.00	0.08	8					
10¼	8⅞	Textl Pf	1.10	0.11						
7	3⅞	Textl Inds	1.10	0.18	9					
35½	24¼	Textron	1.00	0.03	9					
6¼	4½	Thackeray			83					
[illegible]										

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Quote Close	Ch'ge Prev. Close
18½	12	Zenith Nat	1.00	0.06	70	5	16¾	16¾	16⅞	+⅛
6⅛	4½	Zenix Inc	0.99	0.16		13	6	6	6	−⅛
15⅛	10⅞	Zero Corp	0.40	0.03	14	13	13⅝	13⅝	13⅝	
41⅞	29½	Zurn Ind	0.88	0.02	14	23	35½	35¼	35½	+⅛
13½	10¼	Zweig Fund	1.12	0.09		57	12¾	12½	12⅝	−⅛
10	8½	Zweig Totl x	0.96	0.10		207	9⅞	9¾	9⅞	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 5

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4:00 pm prices July 5

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

MONDAY INTERVIEW

Overseer of Britain's savings

Rosalind Gilmore, the building societies commissioner, speaks to **David Barchard**

'In our supervisory activities, we are pro-active'

This is how I see myself," says Rosalind Gilmore, pointing at one of the collection of modern British paintings on the wall of her office in the Building Societies Commission.

The picture is The Bird Seller, by the Scottish artist, Alberto Morocco. "A woman sitting in a market, surrounded by singing birds and reading a newspaper," she adds slyly.

Mrs Gilmore's singing birds are the UK building societies. In April, she became the second-ever building society commissioner, overseeing just under 100 building societies with a staff of about 50, including seven other commissioners.

The Building Societies Commission has little of the glamour of the Bank of England. It is housed in a drab 1950s block just behind Oxford Square in central London. Three George III chairs in Mrs Gilmore's room, discovered in the basement, seem to be all that the commission has inherited in the way of elegant objects.

Nonetheless the commission plays a crucial part in the British financial system. About half of all personal sector savings in the UK in 1990 were deposited with building societies and about three-quarters of new mortgages on residential property were provided by them. Mrs Gilmore's charges range from modest local societies with one office and deposits of less than £5m to giants of the industry, such as Halifax, with assets of £55bn.

By any standards building societies are strongly male-dominated institutions. Women chief executives of building societies are not unknown but they are very uncommon.

Mrs Gilmore brushes aside the suggestion that her work as a commissioner is affected by her being a woman. "It makes no difference whatsoever to the job, or to me except that I have a home and husband to look after, and I take a traditional view of a woman's role in that, but my husband is a civil servant too. I calculate that we have been in the role of Bernard in Yes Minister 10 times between the two of us.

"The financial sector is particularly poor in promoting its women managers – only 3 per cent of women are in senior management – and if the fact that a woman holds a senior position helps encourage other women, then that is a bonus."

In her earlier career, Mrs Gilmore was head of the financial institutions division at the Treasury, where she was responsible for drafting the 1979 Banking Act. Later she spent six years in the private sector, including three as marketing director of Girobank.

Her Great Marlborough Street offices are in effect the equivalent of Companies House for most mutually-owned financial institutions. Under the 1986 Building Societies Act, her duties are to assure the protection of building society investors, foster the stability of the industry, and make recommendations on its future. She is also chief regulator of the friendly societies movement.

"In our supervisory activities, we take a pro-active rather than a reactive approach," she says. "The bottom line is that we watch out to see some worry emerging down the line. We have quite a range of prudential powers to get things put right.

"But first and foremost it is the duty of each building society to conduct its business in such as way as to protect the savings invested with it. My job is to see that they have what it takes – the management, the capital, the systems – to do their job. In that sense the best measure of our success would be if the public generally had never heard of us."

By any normal standard building society savings are very safe. "No one has lost savings in a building society, at least since the second world war, probably since the 19th century," says Mrs Gilmore.

She acknowledges however that UK building societies are in the middle of an unprecedented period of deregulation and diversification. Could it end in tears with something like the savings and loans debacle in the US? Mrs Gilmore thinks not.

"The savings and loans institutions deregulated from an extremely weak position when a lot of them were already in loss. At the same time deposit protection in the US was almost total. No one had to think about how money should be invested," she says.

By contrast in the UK, deregulation has been a much more orderly process, with societies expanding the range of their business activities without endangering their overall balance sheets. "Societies' response in terms of diversifying their own core business of savings and loans and responding to the market by developing new types of mortgages and new types of savings account has been rather good," Mrs Gilmore says.

To those who call societies dinosaurs, she points out that they had about 75 per cent of the new mortgage market in 1990, and just over 50 per cent of private sector savings, an historic high. But this partly reflects their advantage in times of high interest rates as lenders who fund from savers' deposits rather than the money market. How will they fare now that rates have fallen?

Mrs Gilmore is optimistic: "They do now have much greater access to the wholesale market and since 1987 they have enormously developed their skills in wholesale funding and producing innovative retail products."

PERSONAL FILE

- **1937** Born in London.
- **1955-60** Educated University College, London, and Newnham College, Cambridge.
- **1968** Principal, Treasury.
- **1975** Assistant secretary, Treasury.
- **1977-80** Head Financial Institutions Division.
- **1983-86** Director of marketing, National Girobank.
- **1989-91** Deputy chairman and commissioner, Building Societies Commission.
- **1991** Chairman, Building Societies Commission.

Nevertheless her industry is shrinking. The societies most at threat are the small ones, which have been disappearing with great speed in the past five years, many of them snapped up by medium-sized societies wanting to grow.

Complaints are often heard that the commission is forcing the very small societies out of existence by imposing expensive requirements for systems and auditing. There are even private claims by some societies that it would like to see the industry contract into a group of about two dozen large-to-medium societies.

"I don't think size has got anything to do with the view we take of societies. Some of the smallest are the best capitalised and very profitable," replies Mrs Gilmore.

But forthcoming European Community legislation does suggest a minimum size of about Ecu5m (£3.48m). This happens to be about the asset size of the smallest member of the Building Societies Association. In any case, Mrs Gilmore is clear that mergers – in practice usually takeovers of a smaller society by a larger one – are a healthy phenomenon.

"Mergers are a normal part of building society life, and it is no part of the regulator's role to protect an industry from reality. But I still don't see why a small organisation with a good local presence, competitive products and good management can't keep going to 2000 and beyond – though that is not to say that I don't think there will be some further concentration. I think there will be."

What about the prospect that some societies will want to follow Abbey National and shed mutual status with a plc flotation. Has the commission's rigorous approach to the Abbey National conversion perhaps not scared off some societies from taking this route? "Nonsense," she says.

She believes that societies are much more interested in continuing recognisably as building societies than in going the plc route. "But if they want to convert, the Abbey National precedent is there. It shows it can be done. There were some issues which had to be tested in court, but they have been. There is now a blueprint."

Will it be taken up? It seems to depend on whether or not building society legislation is updated yet again. At May's BSA annual conference there were calls, mostly from the larger societies, for new legislation to replace the 1986 Act. The biggest societies want to be able to raise much more of their funding – perhaps 75 per cent instead of the present ceiling of 40 per cent – from the wholesale money markets. They also want most of the legal restrictions on their activities to be scrapped, enabling them to become mutually-owned retail banks.

Mrs Gilmore poured cold water on any hopes that this will happen quickly. She told societies that there could be a dialogue on a new act but it was likely to be a lengthy one.

"The 1986 Act was never intended to be for all time, but the decision on if and when there should be a new act is up to the government. The government's position is that there are no commitments at the moment," she says.

How long does she expect to stay to see whether new legislation is implemented? "Whenever I go, I would like to see a thriving industry of mutual societies owned by their members, and healthy enough to ensure that people have a real choice of ways to save and of help to buy their homes as well as a range of other financial services."

A recovery – but hardly dynamic

MICHAEL PROWSE
on America

The end of recession is not the same thing as the beginning of economic recovery, Mr Alan Greenspan, chairman of the Federal Reserve, commented recently. It was a typically Delphic utterance and somewhat at variance with conventional wisdom which holds that a recovery is well under way.

Friday's employment figures, however, appear to justify Mr Greenspan's caution. Instead of rising by 50,000 in June as generally expected, employment fell by 50,000, pushing the unemployment rate to 7 per cent, the highest level for five years. The fall in manufacturing employment was enough to wipe out the increase in May, which many economists believe marked the first month of recovery.

But the report was not wholly discouraging. The overall increase in employment in May was revised up substantially. A sharp increase in hours worked in June, meanwhile, suggested that companies, while leery of hiring workers, were responding to improved demand by utilising their existing workforce more intensively. On balance, the figures (which are often volatile early in an economic recovery) suggest that industrial production rose in June for the third month running.

Only a few confirmed bears still doubt that an economic turnaround began in April and May. Indeed, until the release of Friday's employment figures, nearly every economic statistic turned out better than expected, prompting several forecasters to revise their estimates of growth and dismiss the possibility that the economy might sink back in a "double dip" recession. DRI/McGraw-Hill, for example, has just revised its forecast and is now predicting an annual rate of growth of 3.5 per cent in the second half of this year.

The investment houses Goldman Sachs and Morgan Stanley, which were among the first to predict recovery, now envisage growth at an annual rate of about 4 per cent over the next few quarters. This is subdued by the standards of most post-second world war recoveries, when growth exceeded 6 per cent, but a decidedly encouraging backdrop for a Republican party seeking its fourth successive presidential term.

Is the friskiness of the bulls justified? Ms Gail Fosler, chief economist at the Conference Board, a New York-based non-profit business analysis group, appears dubious. She says the economy is like a "capsized boat" that, having righted itself, is likely to sit "more or less becalmed". She notes that consumer attitudes about the current situation, a good coincident indicator of the economy, declined in almost every part of the US last month, indicating that the roots of recovery "do not yet run deep".

Salomon Brothers, the Wall St investment bank, is also sceptical that a vigorous recovery can materialise, warning investors not to be misled by the strength of closely-watched leading indicators such as the purchasing managers' index. This has described a perfect "V" in the past year, soaring above 50 per cent in June for the first time since last summer. A figure of above 50 per cent means that most purchasing managers are reporting increases, rather than falls, in orders and production. It thus accurately signals the direction of change but is a less reliable measure of the economy's strength.

The odds in favour of a more robust recovery have shortened in the past month, but lack-lustre growth still seems the likeliest outcome. The recent jump in consumer spending looks like an aberration because it was largely fuelled by a further drop in the savings ratio to only 3.6 per cent. It is unreasonable to expect even credit-crazy US consumers to continue running down savings when levels of personal indebtedness are so high. The drop in sales of new homes in May also raises doubts about the durability of the housing recovery. More sophisticated inventory control techniques, while helping to restrain destocking during the recession, will ironically also curb stockbuilding during the recovery. Many state governments are only beginning to implement tax increases and cuts in public services.

The apparent mildness of the recession is a further ground for expecting only moderate growth over the next year. A shallow recession creates little excess capacity. Mr Michael Boskin, the chief White House economist, has illustrated this point neatly by noting that the current unemployment rate is lower than the rate at which the US economy entered the 1981-82 recession. There is thus little scope to mop up excess stocks of labour and capital. Indeed, if the economy grew for long at above its potential rate of growth (which the OECD last week pessimistically estimated at only 2¼ per cent a year) inflationary pressures could again emerge.

A languid recovery, while unlikely to boost corporate profitability or living standards noticeably, is nevertheless a perfect outcome for the Federal Reserve. Mr Greenspan delivers his biannual Humphrey-Hawkins congressional testimony on July 16. On the recent crop of economic statistics, he can claim to have successfully steered the economy through recession without jeopardising his longer-term goals of lower inflation.

His final quarter-point cut in interest rates occurred just as the economy was bottoming out, not months into the upturn as so often before. Monetary growth, subdued at the end of last year, is back at the centre of its target range. Unless the recovery unexpectedly fizzles out, the next move in interest rates is likely to be up. But with a mild recovery, this unpleasant medicine may be postponed for many months.

JOTTER PAD

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 07.07.91 | Final Prices for Trading on 08.06.91

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.62	16.09	16.09
0100	16.62	16.05	16.05
0130	15.48	16.08	16.09
0200	15.55	16.09	16.09
0230	15.55	18.19	19.75
0300	15.49	16.08	16.09
0330	15.46	16.08	16.09
0400	15.46	16.05	16.05
0430	15.46	16.05	16.05
0500	15.48	16.02	16.02
0530	15.48	16.02	16.02
0600	15.48	16.02	16.02
0630	15.48	16.02	16.02
0700	15.48	16.02	16.02
0730	15.52	16.02	16.02
0800	15.56	16.02	16.02
0830	15.56	18.41	19.96
0900	17.05	18.41	19.96
0930	17.05	18.41	19.97
1000	17.05	19.46	21.05
1030	18.25	19.62	21.41
1100	19.78	20.24	21.83
1130	19.78	20.98	22.59
1200	19.78	20.98	22.59
1230	19.78	26.24	27.98
1300	19.78	26.24	27.98
1330	19.78	20.98	22.60
1400	18.41	20.24	21.85
1430	17.83	20.98	22.61
1500	17.83	20.98	22.61
1530	17.83	18.79	20.36
1600	15.56	18.68	20.25
1630	15.56	18.61	20.18
1700	17.83	18.61	20.18
1730	17.83	18.61	20.18
1800	17.83	18.68	20.25
1830	17.83	18.68	20.25
1900	17.83	18.68	20.25
1930	17.83	18.79	20.36
2000	17.83	18.79	20.35
2030	17.83	18.79	20.36
2100	17.83	20.62	22.26
2130	17.83	21.66	23.34
2200	17.83	21.66	23.32
2230	25.39	21.66	23.30
2300	25.39	21.00	21.00
2330	17.83	16.35	16.35
2400	15.56	16.35	16.35

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.66/MWh becomes 1.666p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 08.07.91 | Final Prices for Trading on 10.06.91

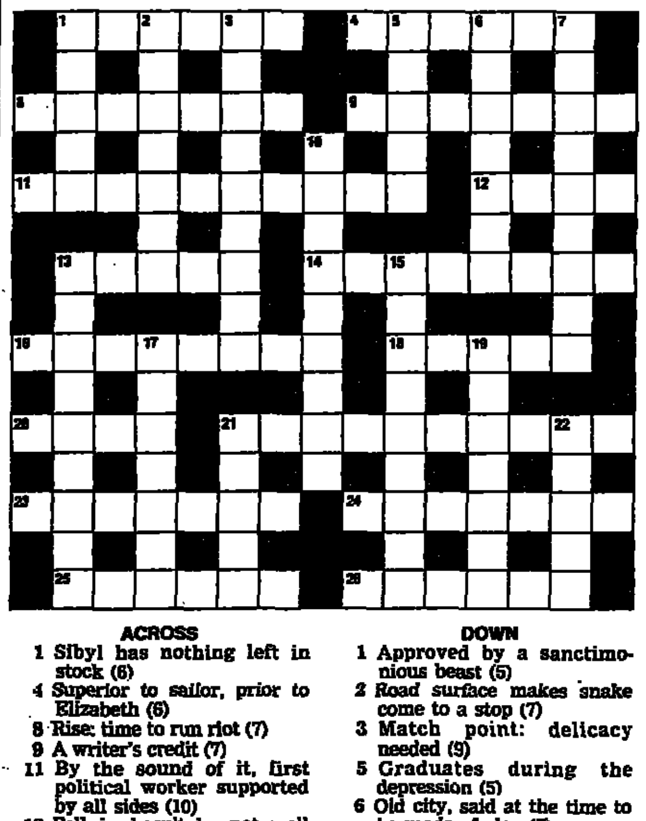
1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.56	16.09	16.09
0100	15.56	16.09	16.09
0130	15.55	16.09	16.09
0200	15.55	16.09	16.09
0230	15.55	16.09	16.09
0300	15.55	16.09	16.09
0330	15.55	16.09	16.09
0400	15.55	16.09	16.09
0430	15.55	16.09	16.09
0500	15.55	16.09	16.09
0530	15.56	16.09	16.09
0600	15.56	16.01	16.01
0630	15.66	16.09	16.09
0700	16.32	16.92	16.92
0730	18.63	17.42	17.42
0800	18.86	20.22	21.45
0830	20.95	22.06	23.56
0900	20.99	24.52	26.82
0930	21.07	27.23	30.31
1000	21.13	29.58	33.27
1030	21.18	30.97	35.06
1100	25.75	31.69	35.94
1130	25.88	33.74	38.57
1200	26.00	35.74	41.09
1230	25.95	33.83	38.27
1300	21.25	29.23	32.76
1330	21.06	23.69	25.84
1400	21.00	22.18	23.99
1430	20.99	21.59	22.89
1500	20.99	21.46	22.72
1530	20.99	21.37	22.59
1600	21.06	21.63	22.93
1630	21.32	26.61	30.21
1700	25.96	22.43	23.97
1730	25.86	22.07	23.50
1800	21.08	21.41	22.65
1830	20.95	19.89	20.97
1900	18.95	19.41	20.48
1930	18.91	19.41	20.48
2000	18.80	19.41	20.49
2030	18.56	19.41	20.49
2100	18.63	19.41	20.49
2130	21.32	20.98	22.09
2200	21.32	20.98	22.07
2230	21.32	22.50	22.50
2300	19.20	17.50	17.50
2330	19.20	17.43	17.43
2400	16.11	17.43	17.43

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.66/MWh becomes 1.666p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

CROSSWORD

No.7,588 Set by HIGHLANDER



ACROSS

1 Sibyl has nothing left in stock (6)
4 Superior to sailor, prior to Elizabeth (6)
8 Rise: time to run riot (7)
9 A writer's credit (7)
11 By the sound of it, first political worker supported by all sides (10)
12 Fell in hospital – not well (4)
13 Eccentric goes out and about (5)
14 Put a stop to passion for risk (8)
16 Losses of importance are less epic somehow (8)
18 Spring in the country (5)
20 Weapons required when marines go in (4)
21 Japanese fencing in tan colour has collapsed (6,4)
23 Endlessly t edious about stingy person (7)
24 Cage first class inside or out of doors (4-3)
25 Water conduit on end of building is complete (6)
26 Going into the tub is about producing an air (6)

DOWN

1 Approved by a sanctimonious beast (5)
2 Road surface makes snake come to a stop (7)
3 Match point: delicacy needed (9)
5 Graduates during the depression (5)
6 Old city, said at the time to be made of clay (7)
7 Vessel has to adjust to Navy officer (9)
10 Being individual, is without one disparaging comment (9)
13 Existing firm turns over some currency and jewellery (9)
15 Affliction to dog painting technique (9)
17 One has things arranged with discernment (7)
19 Extras total by the finish – one (7)
21 Rail for example about narrow boat (5)
22 Question wicked old woman put to audience (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 20.

Clean breaks and good faith

JUSTINIAN

The Court of Appeal's ruling that a 71-year-old woman whose marriage was dissolved 21 years ago is entitled to seek increased maintenance payments and a lump sum after she discovered that her ex-husband had suddenly accumulated great wealth has been widely portrayed as a blow to the principle of "clean break" payments in divorce law. Male divorcees' surprise, while understandable, is nevertheless misplaced.

When parliament in 1973 addressed the question of the financial support of divorcing couples, it emphasised the importance of the spouses doing everything possible to become separately self-sufficient. This was a reflection of the potential increase in each partner's earning capacity. The new law specifically referred to this earning capacity as a factor to be taken into account whenever the court exercised financial powers. The legislation contained three other provisions which related to self-sufficiency and the so-called "clean break".

First, in divorce proceedings where the court has to decide whether to exercise financial powers in favour of a party to the marriage, it is bound to consider whether it would be appropriate to exercise the powers in such a way that the financial obligation of each party towards the other would be terminated as soon after the grant of the decree as the court considered reasonable. The duty of the court is a duty only to consider.

A second provision is more specific. Where the court makes an order for periodical payments, it has to consider whether it would be appropriate to require those payments to be made for a specific period of time. It may do so in cases in which it is felt that the wife, who may need some time to readjust to her new situation, should not or could not expect to rely on continued support from her husband. But so long as an order for periodical payments exists the court has power to vary it, and it would be possible for a person in whose favour a limited term order has been made to apply for it to be extended.

Finally, where a party to a marriage is applying for an order for periodical payments the court may dismiss the application, together with a direction that the applicant should not be entitled to make any further applications.

In practice over the past 20 years the courts have tended not to alter orders for periodical payments after a lapse of time of any length. That is why when the Court of Appeal allowed the 71-year-old widow to make an application for increased maintenance and the payment of a lump sum, it gave a clear warning that she might get a dusty answer when her case was heard. Rarely is the marriage dissolution a clean break at the time of the break-up. But for most divorced couples it may become clean after a time, particularly when there are no longer dependent children.

* * *

DESPITE a public image of a stick-in-the-mud judiciary, judges do engage in promoting law reform through lectures to learned societies and academic audiences. The latest contribution comes from Mr Justice Steyn, himself reared in the Roman-Dutch legal system of South Africa for 15 years before he came and graced the English Bar from 1973 until his elevation to the High Court bench six years ago.

The theme of his 1991 Royal Bank of Scotland law lecture, delivered at Oxford university in May, was that in furthering the observance of good faith and fair dealing in the making and carrying out of contracts the common law of England has been less successful than its counterpart European systems. This is because of the fondly-held pragmatism of English lawyers who adopt a patchwork of concrete legal rules to deal with the individual instances of unfairness in contractual bargains rather than imposing a generalised duty of good faith on contracting parties.

The difference in technique between English common law and the civilian systems of continental Europe lies in their respective philosophical approach. The common law requires consideration for the existence of an enforceable contract; the civilian law requires only a subjective agreement between the parties.

The approach on English law to the formation of a contract is thus largely objective; in continental European systems it is largely subjective. Again in England there is an objective theory of the interpretation of contracts, with a rigid exclusion of evidence relating to prior negotiations and subsequent conduct as an aid to the meaning of the language used by the parties. In continental Europe the approach is otherwise.

Evidence of prior negotiations and subsequent conduct is always treated as part of the logically probative material. Through the web of English contract law the criterion of the reasonable man predominates. In continental Europe greater account is taken of subjective factors. Mr Justice Steyn observes that the emphasis of English law on an objective approach to contractual issues "tends to make England somewhat infertile soil for the development of a generalised duty of good faith in the performance of contracts".

However, Mr Justice Steyn observes that English lawyers are becoming aware that the 19th century adherence to the principle of freedom of negotiations is misguided in today's consumer society of mass production, distribution and consumption.

Awareness of the need to proscribe unfairness should facilitate English acceptance of the projected EC directive to harmonise consumer protection laws after 1992; the directive will regard as unfair any term of a contract if it is incompatible with the requirements of good faith. The limited role that good faith and fair trading have conceptually so far played in English law is becoming a thing of the past.

Louis Blom Cooper QC

BASE LENDING RATES

	%		%		%
ABN Bank	11.5	Comm. Bk. of London Plc	11.5	McDonnell Douglas Bnk	11.5
Adam & Company	11.5	Co-operative Bank	11.5	Midland Bank	11.5
Allied Trust Bank	11.5	Coutts & Co	11.5	Mount Banking	11.5
AIB Bank	11.5	Cyprus Popular Bk	11.5	NatWestminster	11.5
● Henry Ansbacher	11.5	Dunbar Bank PLC	11.5	Northern Bank Ltd	11.5
B & C Merchant Bank	11.5	Duncan Lawrie	11.5	Nykredit Mortgage Bank	12
Bank of Baroda	11.5	Equatorial Bank plc	11.5	Provincial Bank PLC	14
Banco Bilbao Vizcaya	11.5	Exeter Bank Limited	12	Roxburghe Bank Ltd	12.5
* Bank Credit & Comm.	11.5	Financial & Gen. Bank	12	Royal Bk of Scotland	11.5
Bank of Cyprus	11.5	First National Bank Plc.	14	● Smith & Williamson Secs.	11.5
Bank of Ireland	11.5	● Robert Fleming & Co.	11.5	Standard Chartered	11.5
Bank of India	11.5	Robert Fraser & Ptnrs.	12	TSB	11.5
Bank of Scotland	11.5	Girobank	11.5	Unibank plc	11.5
Banque Belge Ltd	11.5	● Guinness Mahon	11.5	● United Bk of Kuwait	11.5
Barclays Bank	11.5	● Hambros Bank	11.5	Unity Trust Bank Plc	11.5
Benchmark Bank	11.5	Hampshire Trust Plc	13.5	Western Trust	11.5
Brit Bk of Mid East	11.5	Heritable & Gen Inv Bnk.	11.5	Westpac Bank Corp.	11.5
● Brown Shipley	11.5	● Hill Samuel	11.5	Whiteaway Laidlaw	11.5
CL Bank Nederland	11.5	C. Hoare & Co.	11.5	Yorkshire Bank	11.5
Citibank NA	11.5	Hongkong & Shanghai	11.5		
City Merchants Bank	11.5	● Leopold Joseph & Sons	11.5		
Clydesdale Bank	11.5	Lloyds Bank	11.5		
		Meghraj Bank Ltd	11.5		

● Members of British Merchant Banking & Securities Houses Association.

* BUSINESS SUSPENDED